



CITIZENS BANCSHARES
CORPORATION

SINCE 1921

The power of momentum

Driving
innovation
and fueling
growth

2024 ANNUAL REPORT

A man in a light-colored suit, white shirt, and patterned tie is looking upwards and to the right. The background shows green trees and a light-colored building with architectural details. The overall tone is aspirational and positive.

A Legacy of Empowerment

In 1921, Mr. Heman Perry was denied the simple act of purchasing a pair of socks—a pivotal moment of discrimination that sparked a powerful vision for change. Determined to build a lasting solution for economic equality, he founded a bank rooted in the belief that fair access to financial services is essential for building strong, thriving communities.

Mr. Perry's mission was bold and his vision clear: to open doors to opportunity, empower resilient businesses, encourage saving and investing for the future, support quality education, and help communities grow—laying the groundwork for lasting generational wealth.

Over a century later, our Company remains deeply committed to that vision. With the launch of our **“Your story is our story.”** campaign, we proudly celebrate our history and reaffirm our dedication to advancing economic inclusion and community empowerment.

We remain steadfast in continuing this journey—building on the foundation laid by pioneers like Mr. Perry—and invite others to join us in shaping a brighter, more equitable future for all.

Together, we are stronger.

Pre-tax Return on Average Assets (Pre-tax ROAA): **2.20%**

Gross loan growth of **10.42%** year-over-year

Historic dividend: **\$1.00 per share**, up from \$0.75 per share

Strong capital position: Tier 1 Capital Ratio at **40%** (Total Capital Ratio at 42%)

GROW

Enhance

Invest in **advanced technology** to improve customer experience and operational efficiency

Strengthen our **risk management framework** across operational, credit, fraud, and market risks

Optimize **product delivery** to ensure faster, more tailored service

Deepen relationships with existing clients to **grow share of wallet**

Elevate **brand presence** across existing and new markets

Expand our digital footprint and deliver seamless **user experiences** (we currently serve customers in 47 states)

Expand

Shareholders Message 2024

Dear Valued Shareholders,

As we navigate today's evolving economic environment, we remain focused on executing our strategy with discipline and foresight, even amid a backdrop of considerable uncertainty.

Navigating Uncertainty with Resilience and Focus

A convergence of macroeconomic forces—including market volatility, inflationary pressures, and the potential for rising unemployment—can impact consumer and business behavior. These conditions contribute to softening loan demand and could also influence our customers' repayment capacity.

At the same time, the rapid increase in interest rates has placed sustained pressure on our cost of funds, which may impact our net interest margin. Although we observed initial signs of stabilization, continued rate fluctuations remain a central consideration as we refine our lending and deposit strategies.

We recognize that these market dynamics challenge traditional strategies. However, they also present opportunities to differentiate our Company through prudent risk management, operational resilience, and customer-focused innovation.

Looking ahead, we remain confident in our ability to adapt, deliver long-term value, and maintain financial strength. Our team's experience in disciplined execution and strategic agility positions us well to navigate current headwinds and emerge stronger.

Operational Focus and Strategic Growth in a Changing Landscape

On the operational front, we are taking deliberate steps to optimize how we deliver services—enhancing the customer experience while improving internal efficiency in preparation for continued cost pressures. This includes anticipated increases in talent acquisition and retention costs, alongside essential investments in technology modernization.

Our digital platforms continue to demonstrate strong adoption and engagement, reinforcing the importance of our ongoing digital strategy. Over the last 4 years, there has been 49% growth across all digital platforms. In parallel, we are maintaining a sharp focus on cybersecurity and data privacy—both of which remain foundational to customer trust and long-term success in an increasingly digital financial landscape.

Within the community banking sector, deposit growth has emerged as a top industry challenge. We too recognize this pressure and are actively developing innovative, sustainable strategies to strengthen and deepen our deposit base.

The broader competitive landscape is also evolving. We are seeing intensified competition from unregulated fintechs, increased fraud risk, and shifts in economic policy that may impact programs supporting Community Development Financial Institutions (CDFIs).

In light of these dynamics, our approach is clear: remain proactive, agile, and customer focused. We are committed to managing today's challenges effectively while positioning the Company to capitalize on emerging opportunities and deliver long-term value.



Driving Impact Through Investing in Community

As a certified Community Development Financial Institution (CDFI), Citizens Trust Bank plays a vital role in advancing equitable access to financial services across all communities. Our participation in the Emergency Capital Investment Program (ECIP) further strengthens our commitment to serving areas that have historically lacked sufficient investment and opportunity.

Aligned with the spirit and intent of ECIP, we are deepening our focus on deep impact and qualified lending in underinvested communities—because we recognize the transformational power of access to capital.

When small businesses have the resources they need, they drive job creation and foster economic resilience. Similarly, access to affordable housing not only supports working families, but also strengthens neighborhoods, supports local economies, and builds pathways to generational wealth.

Our Company remains steadfast in our mission to create opportunity and fuel the growth of vibrant, thriving communities.

In 2024, Citizens Trust Bank continued to demonstrate our commitment to economic opportunity through responsible lending and community engagement. We originated 153 loans within our target markets, with an impressive 88% in deep impact and 100% in qualified lending, directed toward Low and Moderate Income (LMI) borrowers—reinforcing our commitment to equitable access to credit.

Through the **Citizens Trust Bank Down Payment Assistance Program**, eligible homebuyers received up to \$2,000 in support, helping to make affordable homeownership more attainable. We also continued to expand the reach of **Our Money Matters**, our online financial education platform, which equips individuals with the tools and knowledge needed for long-term housing success.

Our team's community engagement efforts have also scaled significantly. In 2024, we proudly conducted hundreds of homeownership workshops in collaboration with valued community partners. We reached over 3,000 potential homeowners helping to lay the foundation for financial empowerment across the markets we serve.

These efforts are not only core to our mission—they also reflect our belief that mission driven growth and

“Citizens Trust Bank has been a true partner in our mission to increase affordable housing and make homeownership a reality for more deserving families. Their support has given us the financial tools to expand our projects, strengthen our community, and help more people achieve their dreams of owning a home.”

—Kevan and Ayesha Shelton, Founders, visionaries, Park Street Homes, Inc.

long-term shareholder value go hand in hand. Our commitment to serving our communities is not only the foundation of our purpose—it is also a powerful driver of sustainable performance. 2024 was no exception.

We are proud to report **another year of strong financial performance**, highlighting:

- The strength of our core business and fundamentals
- The resilience and dedication of our team
- And our ongoing commitment to generating long-term value for our shareholders

2024 Financial Highlights

- Pre-tax Return on Average Assets (Pre-tax ROAA): **2.20%**
- Record year of Pre-Tax earnings of over **\$16.7 million**—supported by a strong efficiency ratio of **56.67%**
- Gross loan growth of **10.42%** year-over-year
- Deposit growth of **8.15%** over the prior year

- Total asset growth of **7.28%**
- Earnings per share (EPS): of **\$6.47**, a **3%** increase over last year
- Historic dividend: **\$1.00 per share**, up from \$0.75 per share
- Strong capital position: Tier 1 Capital Ratio at **40%** (Total Capital Ratio at 42%)

These results were achieved despite meaningful headwinds, including:

- A **159%** increase in interest expense (approximately \$3.1 million) due to the continued effects of the rapid interest rate hikes
- A **\$3 million** write-off tied to a legacy loan acquired through a broker relationship

We are incredibly proud of our ability to deliver strong results in the face of these pressures—further validating our long-term strategy and operational strength.



Rock City Church

Rock City Church in Birmingham, Alabama, led by world renowned Pastor Mike, Jr., serves as a beacon of hope and empowerment for the community. It is one of the fastest-growing congregations in the U.S., focused on faith and community development. Citizens Trust Bank supported the church with over \$6 million in real estate financing, enabling the purchase of a property for a campus dedicated to worship and community initiatives.

“Not only did we end up closing on close to 100k square feet for our new church, but we also purchased 100 dorms across the street, a house next to it, and more land. We were able to do it in a way that was painless and stress-free. Thank you . . . Citizens Trust Bank for helping my vision come to life.”



Looking Ahead: 2025 and Beyond

As we move forward, we remain focused on our core business considering three strategic pillars: **enhance, expand, and grow.**

Enhance Our Capabilities

- Invest in advanced technology to improve customer experience and operational efficiency
- Strengthen our risk management framework across operational, credit, fraud, and market risks
- Optimize product delivery to ensure faster, more tailored service

Expand Our Reach

- Deepen relationships with existing clients to grow share of wallet
- Elevate brand presence across existing and new markets
- Expand our digital footprint and deliver seamless user experiences (we currently serve customers in **47 states**)

Accelerate Growth & Innovation

- Increase customer acquisition through in-person engagement, digital platforms, social media, and targeted marketing
- Improve conversion rate from over **50,000 monthly website visitors**

- Deliver personalized financial solutions that deepen long-term relationships
- Emphasize community impact and sustainability as key elements of our growth model

Elevating Customer Experiences

The current environment presents unique opportunities that can be leveraged to drive growth, deepen customer engagement, and further differentiate our Company as a mission-driven, community-focused institution.

As customer preferences shift toward values-based banking, we are uniquely positioned to meet this moment. This alignment with our core mission strengthens brand loyalty, and enhances our ability to build lasting, trust-based relationships.

Our existing customer base continues to be a powerful asset, offering significant opportunities for growth through personalized cross-selling strategies. By leveraging data-driven insights and long-standing relationships, we are tailoring solutions to meet their evolving financial needs—enhancing loyalty and lifetime value.

Further, central to our strategy is **ongoing investment in technology**—a key enabler of innovation, operational efficiency, and customer satisfaction. These investments allow us to meet our customer’s expectations and their needs.



The Good Success Company, Inc.

Ken Davis founded The Good Success Company, Inc. to empower his community through janitorial services, creating clean environments and stable jobs. Facing challenges in scaling his business, he turned to Citizens Trust Bank for a flexible line of credit, which provided the working capital needed to manage cash flow, expand operations, and hire more employees. This support transformed his modest venture into a successful enterprise, benefiting both the local economy and his workforce. Citizens Trust Bank is dedicated to helping entrepreneurs like Ken, believing that thriving small businesses lead to prosperous communities.

“Citizens Trust Bank gave me the financial flexibility to take my business to the next level... They don’t just support businesses, they invest in business success”

Key Initiatives Driving Our Digital Transformation

Enhanced Digital Platforms: We continue to upgrade our online and mobile banking platforms to deliver seamless, intuitive, and secure user experiences—providing customers with more ways to manage their finances conveniently and confidently.

Smarter Lending Solutions: We are implementing new consumer and commercial loan platforms designed to digitize and streamline the lending process. These platforms are slated to improve time-to-decision, reduce operational costs, strengthen compliance, and significantly boost customer satisfaction.

AI Integration: In partnership with a strategic corporate partner, we are actively exploring the use of artificial intelligence to enhance internal processes. AI-driven capabilities will allow us to launch innovative products more quickly, scale efficiently, and improve service.

Digital Financial Guidance: We continue to enhance our online financial literacy tools, empowering customers to make better-informed decisions while supporting long-term financial well-being.

Our focus is on leveraging technology to **enhance convenience, strengthen security, and preserve personal relationships** that are the foundation of our success. Our commitment to digital innovation ensures that we can deliver our customers what they expect and need from a trusted financial partner, now and in the future.

“Your Story Is Our Story”: Strengthening Brand, Deepening Connection, Driving Growth

As part of our continued growth strategy, we are excited to announce the launch of a new marketing campaign—“**Your Story Is Our Story**”—designed to enhance brand awareness, expand market reach, and reinforce our position as a purpose-driven financial partner.

This campaign marks the beginning of a new era for our Company, as we unveil a refreshed brand identity that honors our legacy while embracing a forward-looking vision. At the heart of this evolution is our new brand mark, “Skyline,” symbolizing strength, trust, and progress. Accompanied by a newly redesigned corporate website, we are delivering

a more modern, user-friendly, and engaging digital experience—reflecting our commitment to innovation and customer satisfaction.

A Story Rooted in Legacy, Driven by Purpose—“Your Story Is Our Story” also celebrates the powerful legacy of our founder, Heman Perry, who envisioned financial empowerment and opportunity for all. That legacy lives on today in our unwavering commitment to helping customers achieve financial independence and success.

Through this campaign, we are highlighting the deeply personal and unique financial journeys—positioning ourselves not just as a financial institution, but as a trusted partner in every client’s success. A multi-channel approach will ensure our message resonates widely and meaningfully with both existing and prospective clients.

This strategic brand initiative is more than a campaign—it’s a reflection of who we are and where we are headed. It reinforces our mission, deepens community connection, and supports our long-term goals of customer engagement, market growth, and sustained shareholder value.

Our Vision for the Future

Our vision is bold, forward-thinking, and centered around customer experience and responsible growth. With a clear roadmap and a dedicated team, we are confident in our ability to grow—not only in size, but in reach, capability, and community impact.

Your continued partnership and support are invaluable. Together, we are building a stronger, more inclusive financial future.

Sincerely,



A handwritten signature in cursive script that reads "Cynthia N. Day".

Cynthia N. Day
President and CEO
Citizens Bancshares Corporation
and Citizens Trust Bank



A handwritten signature in cursive script that reads "Ray M. Robinson".

Ray M. Robinson
Chairman of the Board
Citizens Bancshares Corporation

“Securing a loan with Citizens Trust Bank has been a game-changer for us. . . allowing us to strengthen our financial foundation, reinvest in our property, and continue providing high-quality housing for our community.”

—BQJ Estates, LLC

Financials

SELECTED CONSOLIDATED FINANCIAL DATA FOR CITIZENS BANCSHARES CORPORATION

As of and for the years ended December 31,
(amounts in thousands, except per share data and financial ratios)

STATEMENT OF INCOME DATA:

	2024	2023	2022
Net interest income	\$34,967	\$34,222	\$23,722
Income before income tax expense	\$16,724	\$15,969	\$12,417
Net income	\$12,877	\$12,295	\$9,437
Net income available to common shareholders	\$11,608	\$12,025	\$9,206

PER SHARE DATA:

Net income per common share - basic	\$6.47	\$6.27	\$4.64
Book value per common share	\$35.55	\$30.34	\$24.97
Cash dividends paid per common share	\$1.00	\$0.75	\$0.50

BALANCE SHEET DATA:

Loans, net of unearned income	\$418,196	\$378,717	\$340,855
Deposits	\$599,989	\$554,796	\$620,208
Advances from Federal Home Loan Bank	\$42	\$65	\$3,088
Total assets	\$799,902	\$745,638	\$807,136
Average stockholders' equity	\$181,905	\$173,229	\$127,265
Average assets	\$759,119	\$738,278	\$753,088

RATIOS:

Income before income tax expense to average assets	2.20%	2.16%	1.65%
Net income to average assets	1.70%	1.67%	1.25%
Net income to average stockholders' equity	7.08%	7.10%	7.42%
Dividend payout ratio per common share	15.39%	12.41%	10.79%
Average stockholders' equity to average assets	23.96%	23.46%	16.90%
Tier 1 capital ratio (to risk weighted assets)	40%	42%	48%
Total capital ratio	42%	43%	48%

Citizens Bancshares Corporation and Subsidiary

Report on Consolidated Financial Statements

As of and for the years ended December 31, 2024 and 2023

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Citizens Bancshares Corporation and Subsidiary

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Independent Auditor's Report

Board of Directors
Citizens Bancshares Corporation and Subsidiaries
Atlanta, Georgia

Opinion

We have audited the consolidated financial statements of Citizens Bancshares Corporation and its Subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2024 and 2023, the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2024 and 2023, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Elliott Davis, LLC

Columbia, South Carolina
March 28, 2025

Citizens Bancshares Corporation and Subsidiary

Consolidated Balance Sheets

As of December 31, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Assets		
Cash and due from banks	\$ 2,168,991	\$ 1,605,692
Federal funds sold	35,200,342	33,427,536
Interest bearing deposits with banks	<u>52,734,276</u>	<u>107,675,376</u>
Cash and cash equivalents	<u>90,103,609</u>	<u>142,708,604</u>
Certificates of deposit	250,000	250,000
Investment securities available for sale at fair value	258,323,234	199,206,976
Other investments	949,550	995,350
Loans receivable, net of allowance for credit losses of \$10,636,747 and \$7,568,575 at December 31, 2024 and 2023, respectively	407,558,807	371,148,879
Premises and equipment, net	5,714,275	6,043,453
Cash surrender value of life insurance	21,361,615	11,919,272
Other real estate owned	565,531	-
Right-of-use asset	927,489	1,205,409
Other assets	<u>14,148,135</u>	<u>12,160,203</u>
Total assets	<u>\$ 799,902,245</u>	<u>\$ 745,638,146</u>
Liabilities		
Deposits		
Noninterest-bearing deposits	\$ 228,619,180	\$ 241,840,320
Interest-bearing deposits	<u>371,369,993</u>	<u>312,955,233</u>
Total deposits	<u>599,989,173</u>	<u>554,795,553</u>
Accrued expenses and other liabilities	8,502,799	8,447,499
Bank owned life insurance liability	3,967,043	3,928,606
Lease liability	1,135,327	1,474,528
Advances from Federal Home Loan Bank	<u>41,725</u>	<u>64,921</u>
Total liabilities	<u>613,636,067</u>	<u>568,711,107</u>
Commitments and contingencies (Note 9)		
Stockholders' equity		
Preferred stock, \$1,000 par value; 10,000,000 total shares authorized; 122,700 shares issued and outstanding at December 31, 2024 and 2023	122,700,000	122,700,000
Common stock, \$1 par value; 20,000,000 shares authorized; 2,496,466 and 2,475,766 shares issued at December 31, 2024 and 2023, respectively	2,496,466	2,475,766
Nonvested restricted common stock	(1,251,492)	(790,391)
Additional paid-in capital	11,288,067	10,111,562
Retained earnings	74,154,823	64,333,865
Treasury stock, at cost, 708,635 and 688,573 shares at December 31, 2024 and 2023, respectively	(12,562,522)	(12,103,923)
Accumulated other comprehensive loss	<u>(10,559,164)</u>	<u>(9,799,840)</u>
Total stockholders' equity	<u>186,266,178</u>	<u>176,927,039</u>
Total liabilities and stockholders' equity	<u>\$ 799,902,245</u>	<u>\$ 745,638,146</u>

See Notes to Consolidated Financial Statements

Citizens Bancshares Corporation and Subsidiary

Consolidated Statements of Income

For the years ended December 31, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Interest income		
Loans, including fees	\$ 25,973,193	\$ 22,238,484
Investment securities:		
Taxable	8,311,667	5,829,632
Non-taxable	60,827	53,660
Dividends	66,128	52,694
Federal funds sold	1,810,330	1,697,703
Interest-bearing deposits	<u>3,850,503</u>	<u>6,323,839</u>
Total interest income	<u>40,072,648</u>	<u>36,196,012</u>
Interest expense		
Deposits	5,105,788	1,972,809
Other borrowings	<u>-</u>	<u>824</u>
Total interest expense	<u>5,105,788</u>	<u>1,973,633</u>
Net interest income	34,966,860	34,222,379
Provision for credit losses	<u>3,476,283</u>	<u>3,678,629</u>
Net interest income after provision for credit losses	<u>31,490,577</u>	<u>30,543,750</u>
Noninterest income		
Service charges on deposit accounts	1,485,596	1,499,368
Debit and credit card income	1,174,090	1,305,591
Loss on sale of other real estate owned	(1,675)	-
Loss on sale of repossessed assets	-	(18,532)
Gain on sale of premises and equipment	1,006	-
Mortgage origination fees	206,768	256,274
Income and fees from automated teller machines (ATMs)	117,447	119,607
Investment fee income	504,543	445,581
Bank owned life insurance	442,343	299,441
Grant income	-	937,350
Other operating income	<u>673,925</u>	<u>657,303</u>
Total noninterest income	<u>4,604,043</u>	<u>5,501,983</u>
Noninterest expense		
Salaries and employee benefits	10,152,812	9,809,927
Occupancy and equipment	1,845,317	1,788,236
Other real estate owned	2,564	500
Data processing expense	1,272,342	1,443,667
Professional services	1,293,006	1,292,570
Other benefit expense	270,835	487,590
Other operating expenses	<u>4,533,822</u>	<u>5,254,193</u>
Total noninterest expense	<u>19,370,698</u>	<u>20,076,683</u>
Income before income tax expense	16,723,922	15,969,050
Income tax expense	<u>3,846,483</u>	<u>3,674,119</u>
Net income	<u>12,877,439</u>	<u>12,294,931</u>
Preferred stock dividends	<u>(1,269,533)</u>	<u>(270,000)</u>
Net income available to common shareholders	<u>\$ 11,607,906</u>	<u>\$ 12,024,931</u>
Net income per common share - basic	<u>\$ 6.47</u>	<u>\$ 6.27</u>
Net income per common share - diluted	<u>\$ 6.24</u>	<u>\$ 6.10</u>
Weighted average outstanding shares		
Basic	1,794,859	1,917,102
Diluted	1,859,449	1,971,040

See Notes to Consolidated Financial Statements

Citizens Bancshares Corporation and Subsidiary**Consolidated Statements of Comprehensive Income****For the years ended December 31, 2024 and 2023**

	<u>2024</u>	<u>2023</u>
Net income	\$ 12,877,439	\$ 12,294,931
Other comprehensive (loss) income		
Unrealized holding (losses) gains arising during the period	(999,151)	2,843,287
Tax effect	<u>239,827</u>	<u>(301,029)</u>
Other comprehensive (loss) income, net of tax	<u>(759,324)</u>	<u>2,542,258</u>
Comprehensive income	<u>\$ 12,118,115</u>	<u>\$ 14,837,189</u>

See Notes to Consolidated Financial Statements

Citizens Bancshares Corporation and Subsidiary
Consolidated Statements of Changes in Stockholders' Equity
For the years ended December 31, 2024 and 2023

	Preferred Stock		Common Stock		Nonvested Restricted Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock		Accumulated Other Comprehensive Loss	Total
	Shares	Amount	Shares	Amount				Shares	Amount		
Balance, December 31, 2022	122,700	\$122,700,000	2,453,876	\$ 2,453,876	\$ (161,911)	\$ 9,088,128	\$54,942,363	(472,617)	\$ (4,513,354)	\$ (12,342,098)	\$ 172,167,004
Adoption of ASC 326	-	-	-	-	-	-	(1,140,702)	-	-	-	(1,140,702)
Net income	-	-	-	-	-	-	12,294,931	-	-	-	12,294,931
Other comprehensive income	-	-	-	-	-	-	-	-	-	-	-
Net change in restricted stock	-	-	-	-	(628,480)	811,382	-	-	-	2,542,258	2,542,258
Purchase of treasury stock	-	-	-	-	-	-	-	-	-	-	-
Issuance of common stock	-	-	21,890	21,890	-	212,052	-	(215,956)	(7,590,569)	-	(7,590,569)
Dividends paid on common stock	-	-	-	-	-	-	(1,492,727)	-	-	-	(1,492,727)
Dividends paid on preferred stock	-	-	-	-	-	-	(270,000)	-	-	-	(270,000)
Balance, December 31, 2023	122,700	\$122,700,000	2,475,766	\$ 2,475,766	\$ (790,391)	\$10,111,562	\$64,333,865	(688,573)	\$ (12,103,923)	\$ (9,799,840)	\$ 176,927,039
Net income	-	-	-	-	-	-	12,877,439	-	-	-	12,877,439
Other comprehensive loss	-	-	-	-	-	-	-	-	-	(759,324)	(759,324)
Net change in restricted stock	-	-	-	-	(461,101)	793,810	-	-	-	-	332,709
Purchase of treasury stock	-	-	-	-	-	-	-	(20,062)	(458,599)	-	(458,599)
Issuance of common stock	-	-	20,700	20,700	-	382,695	-	-	-	-	403,395
Dividends paid on common stock	-	-	-	-	-	-	(1,786,948)	-	-	-	(1,786,948)
Dividends paid on preferred stock	-	-	-	-	-	-	(1,269,533)	-	-	-	(1,269,533)
Balance, December 31, 2024	122,700	\$122,700,000	2,496,466	\$ 2,496,466	\$ (1,251,492)	\$11,288,067	\$74,154,823	(708,635)	\$ (12,562,522)	\$ (10,559,164)	\$ 186,266,178

See Notes to Consolidated Financial Statements

Citizens Bancshares Corporation and Subsidiary

Consolidated Statements of Cash Flows

For the years ended December 31, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Cash flows from operating activities		
Net income	\$ 12,877,439	\$ 12,294,931
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	3,476,283	3,678,629
Depreciation	658,733	619,927
Amortization and accretion of investment securities available for sale, net	(435,767)	(471,459)
Write-down of other real estate owned	14,249	-
Benefit for deferred income taxes	(618,196)	(1,451,314)
Loss on sale of other real estate owned	1,675	-
Loss on sale of repossessed vehicles	-	18,532
Gain on sale of premises and equipment	(1,006)	-
Restricted stock compensation, net	736,104	416,844
Change in cash surrender value of life insurance	(442,343)	(299,441)
Change in assets and liabilities:		
Change in other assets and right-of-use asset	(851,989)	401,385
Change in accrued expenses, other liabilities and lease liabilities	<u>(245,464)</u>	<u>1,831,219</u>
Net cash provided by operating activities	<u>15,169,718</u>	<u>17,039,253</u>
Cash flows from investing activities		
Proceeds from certificates of deposit	-	100,000
Proceeds from the sales, maturities and paydowns of securities available for sale	63,998,384	24,962,061
Purchases of securities available for sale	(123,678,026)	(43,120,579)
Net increase (decrease) in other investments	45,800	(106,900)
Net increase in loans	(40,477,991)	(38,145,641)
Purchases of premises and equipment	(329,555)	(365,344)
Purchases of life insurance policies	(9,000,000)	-
Proceeds from sale of repossessed vehicles	-	30,655
Proceeds from sale of other real estate owned	<u>10,325</u>	<u>-</u>
Net cash used in investing activities	<u>(109,430,057)</u>	<u>(56,645,748)</u>
Cash flows from financing activities		
Net change in deposits	45,193,620	(65,412,250)
Net decrease in Federal Home Loan Bank advances	(23,196)	(3,023,498)
Common stock dividend paid	(1,786,948)	(1,492,727)
Preferred stock dividend paid	(1,269,533)	(270,000)
Purchase of treasury stock	<u>(458,599)</u>	<u>(7,590,569)</u>
Net cash provided by (used in) provided by financing activities	<u>41,655,344</u>	<u>(77,789,044)</u>
Net decrease in cash and cash equivalents	(52,604,995)	(117,395,539)
Cash and cash equivalents, beginning of year	<u>142,708,604</u>	<u>260,104,143</u>
Cash and cash equivalents, end of year	<u>\$ 90,103,609</u>	<u>\$ 142,708,604</u>
Supplemental disclosure of cash flow information		
Cash paid during the year for		
Interest	<u>\$ 5,662,244</u>	<u>\$ 1,711,191</u>
Income taxes	<u>\$ 4,587,000</u>	<u>\$ 5,620,000</u>
Supplemental schedule of non-cash investing and financing activities		
Change in unrealized (gain) loss on investment securities available for sale	<u>\$ (999,151)</u>	<u>\$ 2,843,287</u>
Adoption of ASC 326, net of tax	<u>\$ -</u>	<u>\$ (1,140,702)</u>
Transfer of loans to other real estate owned	<u>\$ 591,780</u>	<u>\$ -</u>

See Notes to Consolidated Financial Statements

Citizens Bancshares Corporation and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

Note 1. Summary of Significant Accounting Policies

Business:

Citizens Bancshares Corporation is a holding company that provides a full range of commercial banking to individual and corporate customers in its primary market areas, metropolitan Atlanta, Georgia, and Birmingham and Eutaw, Alabama through its wholly owned subsidiary, Citizens Trust Bank (the "Bank" and together the "Company"). The Bank operates under a state charter and serves its customers through five full-service branches in metropolitan Atlanta, one full-service branch in Birmingham, Alabama, and one full-service branch in Eutaw, Alabama. All significant intercompany accounts and transactions have been eliminated in consolidation. On May 4, 2023, Citizens Bancshares Corporation formed a new subsidiary, CTB Financial Services, LLC, to hold problem assets.

Basis of presentation:

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and with general practices within the banking industry. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts in the consolidated financial statements. Actual results could differ significantly from those estimates. Material estimates common to the banking industry that are particularly susceptible to significant change in the near term are the allowance for credit losses, allowance for unfunded commitments, the valuation of allowances associated with the recognition of deferred tax assets, valuation of investment securities and the value of foreclosed real estate assets.

Cash and cash equivalents:

Cash and cash equivalents include cash on hand and amounts due from banks, interest-bearing deposits with banks and federal funds sold. The Federal Reserve Bank (the "FRB") periodically requires the Company to maintain a required cash reserve balance on deposit with the FRB, based on the Company's daily average balance with the FRB. There was no reserve requirement as of December 31, 2024 and 2023.

Interest-bearing deposits with banks:

Substantially all of the Company's interest-bearing deposits with banks represent funds maintained on deposit at the FRB and the Federal Home Loan Bank of Atlanta (FHLB). These funds fluctuate daily and are used to manage the Company's liquidity and borrowing position. Funds can be withdrawn daily from this account and accordingly, the carrying amount of this account is at cost which is deemed to be a reasonable estimate of fair value.

Other investments:

Other investments consist of FHLB stock and FRB stock which are restricted and have no readily determinable market value. These investments are carried at cost.

Citizens Bancshares Corporation and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

Note 1. Summary of Significant Accounting Policies, Continued

Investment securities:

The Company classifies investments in one of three categories based on management's intent upon purchase: held to maturity securities which are reported at amortized cost, trading securities which are reported at fair value with unrealized holding gains and losses included in earnings, and available for sale securities which are recorded at fair value with unrealized holding gains and losses included as a component of accumulated other comprehensive income (loss). The Company had no investment securities classified as trading or held to maturity at December 31, 2024 or 2023.

Premiums and discounts on available for sale securities are amortized or accreted using a method which approximates a level yield. Amortization and accretion of premiums and discounts are presented within interest income from investment securities on the Consolidated Statements of Income.

Gains and losses on sales of investment securities are recognized upon disposition, based on the adjusted cost of the specific security. Management measures expected credit losses on held to maturity debt securities on a collective basis by major security type: mortgage-backed securities or state and local governments. Management evaluates all available for sale debt securities in an unrealized loss position on a quarterly basis. With available for sale debt securities, the security is written down to fair value with the entire loss recorded in earnings if the Company intends to sell the security or it is more likely than not that the Company will be required to sell the security. If the above criteria is not met for available for sale debt securities and the decline in fair value is the result of credit losses, an allowance for credit losses is recorded based on the difference between the present value of expected cash flows and the amortized cost basis of the security. There was no allowance for credit losses for securities recorded during 2024 or 2023.

Loans receivable and allowance for credit losses:

Loans are reported at principal amounts outstanding plus direct origination costs, net of loan fees and any direct charge-offs. Interest income is recognized over the term of the loan based on the principal amount outstanding. Loan fees and certain direct origination costs are deferred and amortized over the estimated terms of the loans using the level yield method. Premiums and discounts on loans purchased are amortized and accreted using the level yield method over the estimated remaining life of the loan purchased. The accretion and amortization of loan fees, origination costs, and premiums and discounts are included within loan interest income on the Consolidated Statements of Income.

Management considers a loan to be individually evaluated when, based on current information and events, there is a potential that all amounts due according to the contractual terms of the loan may not be collected. Individually evaluated loans are measured based on the present value of expected future cash flows, discounted at the loan's effective interest rate, at the loan's observable market price, or the fair value of the collateral less estimated disposal costs if the loan is collateral dependent.

Loans are generally placed on nonaccrual status when the full and timely collection of principal or interest becomes uncertain or the loan becomes contractually in default for 90 days, 120 days for consumer loans, or more as to either principal or interest, unless the loan is well collateralized and in the process of collection. When a loan is placed on nonaccrual status, current period accrued and uncollected interest is charged-off against interest income on loans unless management believes the accrued interest is recoverable through the liquidation of collateral. Loans are

Citizens Bancshares Corporation and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

Note 1. Summary of Significant Accounting Policies, Continued

Loans receivable and allowance for credit losses, continued:

returned to accrual status when payment has been made according to the terms and conditions of the loan for a continuous six-month period.

The allowance for credit losses is maintained at a level that management believes is adequate to cover management's estimate of lifetime credit losses inherent in loans as of the balance sheet date. The allowance for credit losses is a valuation allowance for estimated credit losses inherent in the loan portfolio, increased by the provision for credit losses and decreased by charge-offs, net of recoveries. The allowance for credit losses is estimated by management using relevant available information, from both internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries are credited to the allowance for credit losses.

Premises and equipment:

Premises and equipment are stated at cost less accumulated depreciation which is computed using the straight-line method over the estimated useful lives of the related assets. When assets are retired or otherwise disposed, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in earnings for the period. The costs of maintenance and repairs, which do not improve or extend the useful life of the respective assets, are charged to earnings as incurred, whereas significant renewals and improvements are capitalized. The range of estimated useful lives for premises and equipment is as follows:

Buildings and improvements	5 - 40 years
Furniture and equipment	3 - 10 years

Leases:

In accordance with Accounting Standards Codification (ASC) 842 "Leases", the Company determines if a contractual arrangement is a lease at inception. Operating leases are included as operating right-of-use (ROU) assets. ROU assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. Currently, the Company does not have any finance leases.

Other real estate owned:

Other real estate owned (OREO) is reported at the lower of cost or fair value less estimated disposal costs, determined on the basis of current appraisals, comparable sales, and other estimates of value obtained principally from independent sources. Any excess of the loan balance at the time of foreclosure over the fair value of the real estate held as collateral is treated as a charge-off against the allowance for credit losses. Any subsequent declines in value are charged to earnings. The Company had other real estate owned valued at \$565,531 as of December 31, 2024. The Company did not have any other real estate owned during the year ended December 31, 2023.

Citizens Bancshares Corporation and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

Note 1. Summary of Significant Accounting Policies, Continued

Goodwill:

Goodwill represents the excess of the purchase price over the fair value of net assets acquired in a business combination. Goodwill is not amortized but tested for impairment on an annual basis, or more often, if events or circumstances indicate there may be impairment. Goodwill impairment exists when a reporting unit's carrying value of goodwill exceeds its implied fair value. Authoritative guidance governing the testing of indefinite lived intangible assets for impairment allows the option to first assess Goodwill by utilizing qualitative factors in determining if it is more likely than not that carrying value exceeds fair value. If, through this analysis, it is determined that it is more likely than not that carrying value exceeds fair value, then the next step requires estimation of the fair value of the reporting unit by quantitative assessment. If the fair value of the reporting unit exceeds its carrying value, no further testing is required. An impairment charge is recognized if the carrying value of the reporting unit's goodwill exceeds its implied fair value. The Company has performed the annual impairment analysis as of December 31, 2024 and concluded no impairment exists. The carrying amount of goodwill was \$362,139 as of December 31, 2024 and 2023, respectively, and is included within other assets on the Consolidated Balance Sheets.

Income taxes:

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which the assets and liabilities are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income tax expense in the period that includes the enactment date.

In the event the future tax consequences of differences between the financial reporting basis and the tax basis of the Company's assets and liabilities result in deferred tax assets, an evaluation of the probability of being able to realize the future benefits indicated by such assets is required. A valuation allowance is provided for the portion of a deferred tax asset when it is more likely than not that some portion or all of the deferred tax asset will not be realized.

Preferred stock:

During June 2022, the Company sold 95,700 shares of Series G Preferred Stock. The stock was issued to the United State Department of the Treasury (U.S. Treasury) through their Emergency Capital Investment Program (ECIP). Dividends on the Series G Preferred Stock are not cumulative. The dividend rate is set based on a schedule set by the U.S. Treasury and can vary based on the Company meeting certain lending thresholds. Dividends begin to accrue after the second year the shares are outstanding and are paid quarterly. During 2024, the Company began paying dividends on Series G Preferred Stock at an annual rate of 2.00%.

Citizens Bancshares Corporation and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

Note 1. Summary of Significant Accounting Policies, Continued

The following table summarizes the various series of preferred stock issued:

	<u>Shares</u>
Series D	5,000
Series E	11,500
Series F	5,500
Series G	95,700
Series H	<u>5,000</u>
Total	<u><u>122,700</u></u>

Series D, E, F and H have the same terms. They are non-cumulative and the holders are entitled to receive, if and as declared by the Company, dividends at the annual rate of 1% of the purchase share price. Series G was issued to the U. S. Treasury through their Emergency Capital Investment Program. Dividends are not cumulative and the dividend rate is set based on a schedule set by the U.S. Treasury and can vary based on the Company meeting certain lending thresholds.

Net income available to common stockholders:

Basic net income, or earnings, per common share (EPS) is computed based on net income available to common stockholders divided by the weighted average number of common shares outstanding. Diluted EPS is computed based on net income available to common stockholders divided by the weighted average number of common and potential common share equivalents. The only potential common share equivalents are those related to nonvested restricted stock grants.

During the year ended December 31, 2023, the Company received and recognized \$937,000 through the Community Development Financial Institution (CDFI) program grant. There were no performance requirements associated with the grant. During the year ended December 31 2024, the Company did not receive any grants from the (CDFI).

Stock-based compensation:

The market price of the Company's common stock is utilized at the date of grant for the determination of fair value for restricted stock awards. Compensation expense is recognized over the required service period, generally defined as the vesting period, using the market share price on the date of grant. The unrecognized expense related to granted and unvested restricted stock totals \$1,251,000, as of December 31, 2024. There were 20,700 shares that fully vested and were exercised in 2024 compared to 21,890 shares that fully vested and were exercised in 2023.

Citizens Bancshares Corporation and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

Note 1. Summary of Significant Accounting Policies, Continued

Stock-based compensation, continued:

In 2021, 17,500 nonvested restricted shares of common stock were granted to certain officers and the CEO at a grant price of \$13.75. These shares vested 100% (cliff vesting) on May 26, 2024.

In 2022, 20,000 nonvested restricted shares of common stock were granted to certain officers and the CEO at a grant price of \$10.46. These shares will vest 100% (cliff vesting) on May 26, 2025. In addition, 4,200 nonvested restricted shares of common stock were granted on May 26, 2022 to members of the Board of Directors, excluding the CEO, at a grant price of \$10.46. These shares vested on May 26, 2023.

In 2023, 20,500 nonvested restricted shares of common stock were granted to certain officers and the CEO at a grant price of \$36.85. These shares will vest 100% (cliff vesting) on May 25, 2026. 4,200 nonvested restricted shares of common stock were granted on May 25, 2023 to members of the Board of Directors, excluding the CEO, at a grant price of \$36.85. These shares vested on May 25, 2024. 1,000 nonvested restricted shares of common stock were granted on October 26, 2023 to a member of the Board of Directors at a grant price of \$35.50. These shares vested on May 26, 2024.

In 2024, 20,500 nonvested restricted shares of common stock were granted to certain officers and the CEO at a grant price of \$47.40. One-third of the original number of shares will vest annually on the anniversary date of issuance, May 23. All shares will be fully vested on May 23, 2027. 4,200 nonvested restricted shares of common stock were granted on May 23, 2024 to members of the Board of Directors, excluding the CEO, at a grant price of \$47.40. These shares vest on May 23, 2025.

Comprehensive income:

The Company reports comprehensive income in accordance with ASC 220, *Comprehensive Income*. ASC 220 requires that all items that are required to be reported under accounting standards as comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. The disclosure requirements have been included in the Company's Consolidated Statements of Comprehensive Income. The only component of comprehensive income relates to the change in value of available for sale securities.

Fair values of financial instruments:

ASC 820, *Fair Value Measurements and Disclosures*, requires disclosure of fair value information for financial instruments, whether or not recognized in the balance sheet, when it is practicable to estimate the fair value. ASC 820 defines a financial instrument as cash, evidence of an ownership interest in an entity or contractual obligations which require the exchange of cash or other financial instruments. Certain items are specifically excluded from the disclosure requirements, including the Company's common stock. In addition, other nonfinancial instruments such as premises and equipment and other assets and liabilities are not subject to the disclosure requirements.

Citizens Bancshares Corporation and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

Note 1. Summary of Significant Accounting Policies, Continued

Risks and uncertainties:

In the normal course of its business, the Bank encounters two significant types of risks: economic and regulatory. There are three main components of economic risk: interest rate risk, credit risk, and market risk.

The Bank is subject to interest rate risk to the degree that its interest-bearing liabilities mature or reprice at different speeds, or on different bases, than its interest-earning assets. Credit risk is the risk of default on the Bank's loan portfolio that results from a borrower's inability or unwillingness to make contractually required payments. Market risk reflects changes in the value of collateral underlying loans receivable and the valuation of real estate held by the Bank.

The Bank is subject to the regulations of various governmental agencies. These regulations can and do change significantly from period to period. The Bank also undergoes periodic examinations by the regulatory agencies, which may subject it to further changes with respect to asset valuations, amounts of required loss allowances and operating restrictions from the regulators' judgments based on information available to them at the time of their examination.

Revenue recognition:

In accordance with ASC Topic 606, *Revenue from Contracts with Customers*, revenues are recognized when control of promised goods or services is transferred to customers in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services. To determine revenue recognition for arrangements that an entity determines are within the scope of Topic 606, the Company performs the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the Company satisfies a performance obligation. A description of the Company's revenue streams accounted for under ASC 606 follows:

Service charges on deposit accounts: The Company earns fees from its deposit customers for transaction-based, account maintenance, and overdraft services. Transaction-based fees are recognized at the time the transaction is executed as that is the point in time the Company fulfills the customer's request. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are automatically withdrawn from the customer's account balance on a daily basis.

Debit and credit card income: The Company earns interchange fees from debit and credit cardholder transactions conducted through payment networks. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, with the transaction processing services provided to the cardholder. Fees are recognized on a daily basis.

Income and fees from automated teller machines (ATMs): The Company earns fees from its established ATM network. Fees are charged to non-customers of the Company who access the Company's network utilizing a debit card or credit card issued by another financial institution. The Company also earns fees when the Company's customers utilize the ATM network of another financial institution. Fees are recognized at the time of the transaction.

Citizens Bancshares Corporation and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

Note 1. Summary of Significant Accounting Policies, Continued

Gain on sale of other real estate owned (OREO): Gains/losses on the sale of OREO are included in noninterest income and are generally recognized when the performance obligation is complete. This is typically at delivery of control over the property to the buyer at the time of each real estate closing.

Recently adopted accounting pronouncements:

The following is a summary of recent authoritative pronouncements that could impact the accounting, reporting, and/or disclosure of financial information by the Company.

On January 1, 2023, the Company adopted ASU 2016-13 Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (ASC 326). This standard replaced the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (CECL) methodology. CECL requires an estimate of credit losses for the remaining estimated life of the financial asset using historical experience, current conditions, and reasonable and supportable forecasts and generally applies to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities, and some off-balance sheet credit exposures such as unfunded commitments to extend credit. Financial assets measured at amortized cost will be presented at the net amount expected to be collected by using an allowance for credit losses.

In addition, CECL made changes to the accounting for available-for-sale debt securities. One such change is to require credit losses to be presented as an allowance rather than as a write-down on available-for-sale debt securities if management does not intend to sell and does not believe that it is more likely than not they will be required to sell.

The Company adopted ASC 326 and all related subsequent amendments thereto effective January 1, 2023, using the modified retrospective approach for all financial assets measured at amortized cost and off-balance sheet credit exposures. The transition adjustment of the adoption of CECL included an increase in the allowance for credit losses on loans of \$1.2 million, which is presented as a reduction to net loans outstanding, and an increase in the allowance for credit losses on unfunded loan commitments of \$336,000, which is recorded within Other Liabilities. The Company recorded a net decrease to retained earnings of \$1.1 million as of January 1, 2023, for the cumulative effect of adopting CECL, which reflects the transition adjustments noted above, net of tax.

The Company adopted ASC 326 using the prospective transition approach for debt securities for which other-than-temporary impairment had been recognized prior to January 1, 2023. As of December 31, 2022, the Company did not have any other-than-temporarily impaired investment securities. Therefore, upon adoption of ASC 326, the Company determined that an allowance for credit losses on available-for-sale securities was not deemed material.

Citizens Bancshares Corporation and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

Note 1. Summary of Significant Accounting Policies, Continued

The Company elected not to measure an allowance for credit losses for accrued interest receivable and instead elected to reverse interest income on loans or securities that are placed on nonaccrual status, which is generally when the instrument is 90 days past due (120 days for consumer loans), or earlier if the Company believes the collection of interest is doubtful. The Company has concluded that this policy results in the timely reversal of uncollectible interest.

Allowance for Credit Losses – Available for Sale Securities

For available for sale securities, management evaluates all investments in an unrealized loss position on a quarterly basis, and more frequently when economic or market conditions warrant such evaluation. If the Company has the intent to sell the security, or it is more likely than not that the Company will be required to sell the security, the security is written down to fair value, and the entire loss is recorded in earnings.

If either of the above criteria is not met, the Company evaluates whether the decline in fair value is the result of credit losses or other factors. In making the assessment, the Company may consider various factors including the extent to which fair value is less than amortized cost, performance on any underlying collateral, downgrades in the ratings of the security by a rating agency, the failure of the issuer to make scheduled interest or principal payments and adverse conditions specifically related to the security. If the assessment indicates that a credit loss exists, the present value of cash flows expected to be collected is compared to the amortized cost basis of the security and any excess is recorded as an allowance for credit loss, limited to the amount that the fair value is less than the amortized cost basis. Any amount of unrealized loss that has not been recorded through an allowance for credit loss is recognized in other comprehensive income.

Changes in the allowance for credit loss are recorded as provision for (or reversal of) credit loss expense. Losses are charged against the allowance for credit loss when management believes an available for sale security is confirmed to be uncollectible or when either of the criteria regarding intent or requirement to sell is met. At December 31, 2024 and 2023, there was no allowance for credit loss related to the available for sale portfolio.

Accrued interest receivable on available-for-sale debt securities totaled \$1.2 million and \$1.0 million at December 31, 2024 and 2023, respectively, and was excluded from the estimate of credit losses.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at amortized cost. Amortized cost is the principal balance outstanding, net of purchase premiums and discounts and deferred fees and costs. Accrued interest receivable related to loans totaled \$1.4 million and \$1.6 million at December 31, 2024 and 2023, respectively, and was reported in other assets on the Consolidated Balance Sheets. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using methods that approximate a level yield without anticipating prepayments.

The accrual of interest is generally discontinued when a loan becomes 90 days past due and is not well collateralized and in the process of collection, or when management believes, after considering economic and business conditions and collection efforts, that the principal or interest will not be collectible in the normal course of business. Past due status is based on contractual terms of the loan. A loan is considered to be past due when a scheduled payment has not been received 30 days after the contractual due date.

Citizens Bancshares Corporation and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

Note 1. Summary of Significant Accounting Policies, Continued

All accrued interest is reversed against interest income when a loan is placed on nonaccrual status. Interest received on such loans is accounted for using the cost-recovery method, until qualifying for return to accrual. Under the cost-recovery method, interest income is not recognized until the loan balance is reduced to zero. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current, there is a sustained period of repayment performance, and future payments are reasonably assured.

Allowance for Credit Losses - Loans

The allowance for credit losses is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged off against the allowance when management believes the uncollectibility of a loan balance is confirmed. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off. Accrued interest receivable is excluded from the estimate of credit losses.

The allowance for credit losses represents management's estimate of lifetime credit losses inherent in loans as of the balance sheet date. The allowance for credit losses is estimated by management using relevant available information, from both internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts.

The Company measures expected credit losses for loans on a pooled basis when similar risk characteristics exist. The Company has identified the following portfolio segments and calculates the allowance for credit losses for each using the specified methodologies:

- Commercial, financial, and agricultural
 - Other Commercial Loans – Non-Real Estate – discounted cash flow
- Commercial real estate
 - Other Commercial Loans – Real Estate – discounted cash flow
 - Church Loans – discounted cash flow
 - Convenience Stores – discounted cash flow
- Residential first mortgages
 - 1-4 Residential – discounted cash flow
 - Mortgages (serviced by third parties) – weighted average remaining life
 - Residential Mortgages – discounted cash flow
- HELOCs and equity
 - Consumer 1-4 Family Junior Liens – discounted cash flow
 - Consumer Equity Lines of Credit – discounted cash flow
- Construction and development
 - Construction/Development – discounted cash flow
- Consumer and other
 - Consumer – Personal Lines of Credit – discounted cash flow
 - Consumer Installment Loans – discounted cash flow
 - Credit Cards – weighted average remaining life

Citizens Bancshares Corporation and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

Note 1. Summary of Significant Accounting Policies, Continued

Each segment is further delineated by risk ratings, non-accrual status, and loans over 90 days past due. Outstanding balance and exposure are calculated. Management is using the Discounted Cash Flow (DCF) method for the bulk of its loan portfolio. This methodology was chosen as it allows for incorporating a reasonable and supportable forecast, the analysis aligns well with other calculations outside the ACL estimation, and peer data is available for certain inputs (loss rates). The discounted cash flow methodology determines the loss estimate by calculating the value of expected cash flows over the life of the loan and comparing it to the current balance outstanding of the loan. Expected losses are calculated using a gross loss rate and recovery rate assumption via regression modeling. Independent variables used in the regression model include the Company's own data and peer institution data from FFIEC Call Report filings. Management has prioritized internal data but uses relevant peer data due to statistical relevance concerns, historical data limitations and the inability to secure through the cycle loan level data. Modeling the allowance for credit losses requires incorporating expected prepayments/curtailments into the model. Peer data, provided by a third-party model provider/expert is used to develop benchmark prepayment and curtailment rates, which are used due to historical data constraints. Management has identified a correlation between historical loss experience and the national unemployment rate for the Company's primary markets: Atlanta and Birmingham. Management has elected to forecast lifetime credit losses using this correlation. Future losses will be calculated using the forecasted unemployment rate for the next four quarters. For the remaining amortization period, the forecast reverts to historical loss rates on a straight-line basis.

Management has elected to use the Weighted Average Remaining Life (WARM) methodology for its credit card and mortgage loans serviced by others loan portfolios. This methodology is appropriate due to the uniformity of underwriting, similarity of life of loan, prepayment and curtailment rates, and availability of relevant data. This methodology calculates expected losses by applying an average annual charge-off rate that is determined by using historical loss information. The weighted average of the assets' contractual terms is used to estimate the pool's remaining contractual term. The expected loss is calculated using the average annual net-charge-off rates and the amortization-adjusted remaining life with qualitative factor adjustments. Loss rates are calculated using the following approaches: most recent four quarter, three-year rolling average and average loan balance. These three views allow for a review of current loss, recent prior loss and loss over a longer period.

There have been no changes to either methodology since adopted January 1, 2023. There have not been any significant purchases, sales or reclassifications of loans held for investment during 2024 and 2023.

Additionally, the allowance for credit losses calculation includes subjective adjustments for qualitative risk factors that are likely to cause estimated credit losses to differ from historical experience. These qualitative adjustments may increase or reduce reserve levels and include adjustments for changes in lending policies and procedures, asset quality and portfolio trends, loan portfolio growth, industry concentrations, trends in underlying collateral, lending management experience and risk tolerance, loan review and audit results, external factors and economic conditions not already captured.

Loans that do not share risk characteristics are evaluated on an individual basis. When the borrower is experiencing financial difficulty and repayment is expected to be provided through operation or sale of the collateral, the expected credit losses are based on the fair value of collateral at the reporting date, adjusted for selling costs as appropriate.

Citizens Bancshares Corporation and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

Note 1. Summary of Significant Accounting Policies, Continued

Allowance for Credit Losses – Unfunded Commitments

Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit issued to meet customer financing needs. The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for off-balance sheet loan commitments is represented by the contractual amount of those instruments. Such financial instruments are recorded when they are funded.

The Company records an allowance for credit losses on off-balance sheet credit exposures, unless the commitments to extend credit are unconditionally cancelable, through a charge to provision for unfunded commitments in the Company's Consolidated Statements of Income. The allowance for credit losses on off-balance sheet credit exposures is estimated by loan segment at each balance sheet date under the current expected credit loss model using the same methodologies as portfolio loans, taking into consideration the likelihood that funding will occur as well as any third-party guarantees. The allowance for unfunded commitments is included in other liabilities on the Company's Consolidated Balance Sheets.

Operating Segments

On January 1, 2024, the Company adopted ASU 2023-07, Segment Reporting (Topic 280) - Improvement to Reportable Segment Disclosures. The amendments in ASU 2023-07 improve financial reporting by requiring disclosure of incremental segment information on an annual basis to enable investors to develop more decisions-useful financial analyses. The Company has determined that its banking services and branch locations meet the aggregation criteria of ASC 280, Segment Reporting, since each of its banking services and branch locations offer similar products and services, operate in a similar manner, have similar customers and report to the same regulatory authority, and therefore operate one line of business located in a single geographic area. The Company's Chief Executive Officer has been identified as the chief operating decision maker ("CODM").

Reclassifications:

Certain prior year amounts have been reclassified to conform to the 2024 presentation. Such reclassifications had no impact on net income or stockholders' equity as previously reported.

Citizens Bancshares Corporation and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

Note 2. Investment Securities

Securities available for sale consisted of the following:

	December 31, 2024			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Municipal securities	\$ 13,600,649	\$ 305	\$ (1,057,259)	\$ 12,543,695
U.S. Treasury securities	26,482,935	28,521	(78,174)	26,433,282
Agency securities	19,093,129	-	(1,256,703)	17,836,426
Mortgage-backed securities	203,091,551	80,348	(11,332,276)	191,839,623
Corporate securities	10,215,776	17,244	(562,812)	9,670,208
	<u>\$ 272,484,040</u>	<u>\$ 126,418</u>	<u>\$ (14,287,224)</u>	<u>\$ 258,323,234</u>

	December 31, 2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Municipal securities	\$ 13,971,080	\$ -	\$ (1,170,328)	\$ 12,800,752
U.S. Treasury securities	52,320,540	-	(543,586)	51,776,954
Agency securities	21,046,262	13,910	(1,212,992)	19,847,180
Mortgage-backed securities	120,167,768	64,343	(9,685,884)	110,546,227
Corporate securities	4,862,981	-	(627,118)	4,235,863
	<u>\$ 212,368,631</u>	<u>\$ 78,253</u>	<u>\$ (13,239,908)</u>	<u>\$ 199,206,976</u>

The Company did not have an allowance for credit losses on securities available for sale as of December 31, 2024 and 2023.

The amortized costs and fair values of investment securities at December 31, 2024, by contractual maturity, are shown below. Mortgage-backed securities are classified by their contractual maturity, however, expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with and without call or prepayment penalties.

Citizens Bancshares Corporation and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

Note 2. Investment Securities, Continued

	Securities Available For Sale	
	Amortized Cost	Estimated Fair Value
Due within one year	\$ 18,735,093	\$ 18,667,456
Due after one year but within five years	25,058,935	24,160,000
Due after five years but within ten years	20,137,098	18,249,828
Due after ten years	5,461,363	5,406,326
Mortgage-backed securities	<u>203,091,551</u>	<u>191,839,623</u>
Total	<u>\$ 272,484,040</u>	<u>\$ 258,323,234</u>

There were no securities sold in 2024 or 2023. Investment securities with carrying values of approximately \$77.1 million and \$88.0 million at December 31, 2024 and 2023, respectively, were pledged to secure public funds on deposit, for other purposes as required by law and advances through the FHLB.

The following table shows the gross unrealized losses and estimated fair value of available sale securities for which an allowance for credit losses has not been recorded aggregated by category and length of time that securities have been in a continuous unrealized loss position at December 31, 2024 and December 31, 2023.

	December 31, 2024					
	Less than twelve months		Twelve months or more		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Municipal securities	\$ 367,212	\$ (710)	\$ 11,621,179	\$ (1,056,549)	\$ 11,988,391	\$ (1,057,259)
U.S. Treasury securities	-	-	14,905,469	(78,174)	14,905,469	(78,174)
Agency securities	5,653,590	(15,496)	12,182,836	(1,241,207)	17,836,426	(1,256,703)
Mortgage-backed securities	100,859,713	(1,961,346)	74,595,926	(9,370,930)	175,455,639	(11,332,276)
Corporate securities	<u>2,562,459</u>	<u>(1,838)</u>	<u>4,171,379</u>	<u>(560,974)</u>	<u>6,733,838</u>	<u>(562,812)</u>
	<u>\$109,442,974</u>	<u>\$ (1,979,390)</u>	<u>\$117,476,789</u>	<u>\$ (12,307,834)</u>	<u>\$226,919,763</u>	<u>\$ (14,287,224)</u>

Citizens Bancshares Corporation and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

Note 2. Investment Securities, Continued

	December 31, 2023					
	Less than twelve months		Twelve months or more		Total	
	Unrealized		Unrealized		Unrealized	
	Fair value	losses	Fair value	losses	Fair value	losses
Municipal securities	\$ 372,245	\$ (58)	\$ 12,428,507	\$ (1,170,270)	\$ 12,800,752	\$ (1,170,328)
U.S. Treasury securities	-	-	51,776,954	(543,586)	51,776,954	(543,586)
Agency securities	6,409,330	(17,466)	6,759,082	(1,195,526)	13,168,412	(1,212,992)
Mortgage-backed securities	12,613,888	(101,784)	82,762,153	(9,584,100)	95,376,041	(9,685,884)
Corporate securities	-	-	4,235,863	(627,118)	4,235,863	(627,118)
	<u>\$19,395,463</u>	<u>\$ (119,308)</u>	<u>\$157,962,559</u>	<u>\$ (13,120,600)</u>	<u>\$177,358,022</u>	<u>\$ (13,239,908)</u>

Unrealized losses on the available for sale portfolio have not been recognized into income because the issuer(s) of bonds are of high credit quality (rated AA or higher), management does not intend to sell and it is likely that management will not be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in interest rates and other market conditions. The issuers continue to make timely principal and interest payments on the bonds. The fair value is expected to recover as the bonds approach maturity. Four corporate securities, sixteen municipal securities, and six private label mortgage-backed securities have unrealized losses as of December 31, 2024.

The Company uses prices from third party pricing services and, to a lesser extent, indicative (non-binding) quotes from third party brokers, to measure fair value of our investment securities. Fair values of the investment securities portfolio could decline in the future if the underlying performance of the collateral for collateralized mortgage obligations or other securities deteriorates, and the levels do not provide sufficient protection for contractual principal and interest. As a result, there is risk that future credit loss may occur in the future.

The Company's investment portfolio consists principally of obligations of the United States, its agencies or its corporations and general obligation and revenue municipal securities. In the opinion of management, there is no concentration of credit risk in its investment portfolio. The Company places its deposits and correspondent accounts with and sells its federal funds to high quality institutions. Management does not believe credit risk associated with correspondent accounts to be significant.

Citizens Bancshares Corporation and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

Note 3. Loans Receivable and Allowance for Credit Losses

The major classification of loans receivable are summarized as follows at December 31, 2024 and 2023 (in thousands):

	<u>2024</u>	<u>2023</u>
Commercial, financial and agricultural	\$ 106,527	\$ 101,445
Construction and development	43,753	30,058
Residential first mortgages	82,325	63,199
HELOCs and equity	7,503	5,954
Commercial real estate	160,955	166,700
Consumer and other	<u>17,133</u>	<u>11,361</u>
	418,196	378,717
Allowance for credit losses	<u>(10,637)</u>	<u>(7,568)</u>
Total loans	<u>\$ 407,559</u>	<u>\$ 371,149</u>

As of December 31, 2024 and 2023, the balance of overdrafts was approximately \$341,000 and 103,000, respectively. Overdrafts are reclassified to the Consumer and other loan segment above.

Concentrations - The Company's concentrations of credit risk are as follows:

A substantial portion of the Company's loan portfolio is collateralized by real estate in the metropolitan Atlanta and Birmingham markets. Accordingly, the ultimate collectability of a substantial portion of the Company's loan portfolio is susceptible to changes in market conditions in the metropolitan Atlanta and Birmingham areas.

- The Company's loans to area churches were approximately \$47.8 million and \$43.0 million at December 31, 2024 and 2023, respectively, which are generally secured by real estate.
- The Company's loans to area hotels were approximately \$20.7 million and \$19.3 million at December 31, 2024 and 2023, respectively, which are generally secured by real estate.
- The Company's loans to area office buildings were approximately \$25.9 million and 19.2 million at December 31, 2024 and 2023, respectively, which are generally secured by real estate

Citizens Bancshares Corporation and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

Note 3. Loans Receivable and Allowance for Credit Losses, Continued

The following is an aging analysis of the Company's loan portfolio at December 31, 2024 and 2023 (in thousands):

	December 31, 2024					
	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due and Still Accruing	Nonaccrual	Current	Total Loans Receivable
Commercial, financial and agricultural	\$ 101	\$ 30	\$ 3	\$ 6,257	\$ 100,136	\$ 106,527
Construction and development	-	-	-	131	43,622	43,753
Residential first mortgages	829	263	-	2,423	78,810	82,325
HELOCs and equity	-	72	-	180	7,251	7,503
Commercial real estate	130	-	-	3,264	157,561	160,955
Consumer and other	79	39	37	81	16,896	17,133
	<u>\$ 1,140</u>	<u>\$ 404</u>	<u>\$ 40</u>	<u>\$ 12,336</u>	<u>\$ 404,276</u>	<u>\$ 418,196</u>
	December 31, 2023					
	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due and Still Accruing	Nonaccrual	Current	Total Loans Receivable
Commercial, financial and agricultural	\$ 7	\$ 91	\$ 44	\$ 5,975	\$ 95,328	\$ 101,445
Construction and development	-	-	-	131	29,927	30,058
Residential first mortgages	1,763	1,185	-	387	59,864	63,199
HELOCs and equity	109	-	-	78	5,767	5,954
Commercial real estate	2,179	55	-	1,093	163,373	166,700
Consumer and other	36	35	36	46	11,208	11,361
	<u>\$ 4,094</u>	<u>\$ 1,366</u>	<u>\$ 80</u>	<u>\$ 7,710</u>	<u>\$ 365,467</u>	<u>\$ 378,717</u>

Each of our portfolio segments and the classes within those segments are subject to risks that could have an adverse impact on the credit quality of our loan portfolio. Management has identified the most significant risks as described below which are generally similar among our segments and classes. While the list is not exhaustive, it provides a description of the risks that management has determined are the most significant.

Citizens Bancshares Corporation and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

Note 3. Loans Receivable and Allowance for Credit Losses, Continued

Commercial, financial and agricultural loans - We centrally underwrite each of our commercial loans based primarily upon the customer's ability to generate the required cash flow to service the debt in accordance with the contractual terms and conditions of the loan agreement. We endeavor to gain a complete understanding of our borrower's businesses including the experience and background of the principals. To the extent that the loan is secured by collateral, which is a predominant feature of the majority of our commercial loans, we gain an understanding of the likely value of the collateral and what level of strength the collateral brings to the loan transaction. To the extent that the principals or other parties provide personal guarantees, we analyze the relative financial strength and liquidity of each guarantor. Common risks to each class of commercial loans include risks that are not specific to individual transactions such as general economic conditions within our markets, as well as risks that are specific to each transaction including demand for products and services, personal events such as disability or change in marital status, and reductions in the value of our collateral. Due to the concentration of loans in the metro Atlanta and Birmingham areas, we are susceptible to changes in market and economic conditions of these areas.

Construction and development - Real estate construction loans are highly dependent on the supply and demand for residential and commercial real estate in the markets we serve as well as the demand for newly constructed commercial space and residential homes and lots that our customers are developing. Continuing deterioration in demand could result in significant decreases in the underlying collateral values and make repayment of the outstanding loans more difficult for our customers. Real estate construction loans can experience delays in completion and cost overruns that exceed the borrower's financial ability to complete the project.

Residential first mortgages - Real estate residential loans are to individuals and are secured by 1-4 family residential property. Significant and rapid declines in real estate values can result in residential mortgage loan borrowers having debt levels in excess of the current market value of the collateral.

HELOCs and equity - This portfolio consists of revolving lines of credit secured by a 1-4 family residence and loans secured by 1-4 family residences where the lien is in a junior position.

Commercial real estate - Real estate commercial loans consist of loans secured by multifamily housing, commercial non-owner and owner occupied and other commercial real estate loans. The primary risk associated with multifamily loans is the ability of the income-producing property that collateralizes the loan to produce adequate cash flow to service the debt. High unemployment or generally weak economic conditions may result in our customer having to provide rental rate concessions to achieve adequate occupancy rates. Commercial owner-occupied and other commercial real estate loans are primarily dependent on the ability of our customers to achieve business results consistent with those projected at loan origination resulting in cash flow sufficient to service the debt. To the extent that a customer's business results are significantly unfavorable versus the original projections, the ability for our loan to be serviced on a basis consistent with the contractual terms may be at risk. These loans are primarily secured by real property and can include other collateral such as personal guarantees, personal property, or business assets such as inventory or accounts receivable. As such, it is possible that the liquidation of the collateral will not fully satisfy the obligation. Also, due to the concentration of loans in the metro Atlanta and Birmingham areas, we are susceptible to changes in market and economic conditions of these areas.

Consumer and other - The installment loan portfolio includes loans secured by personal property such as automobiles, marketable securities, other titled recreational vehicles and motorcycles, as well as unsecured consumer debt. The value of underlying collateral within this class is especially volatile due to potential rapid depreciation in values since date of loan origination in excess of principal repayment.

Citizens Bancshares Corporation and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

Note 3. Loans Receivable and Allowance for Credit Losses, Continued

Risk categories - The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. Loans classified as substandard or special mention are reviewed quarterly by the Company for further deterioration or improvement to determine if appropriately classified and individually evaluated, if necessary. All other loan relationships greater than \$750,000 are reviewed at least annually to determine the appropriate loan grading. In addition, during the renewal process of any loan, as well as if a loan becomes past due, the Company will evaluate the loan grade.

Loans excluded from the scope of the annual review process above are generally classified as pass credits until: (a) they become past due; (b) management becomes aware of deterioration in the creditworthiness of the borrower; or (c) the customer contacts the Company for a modification. In these circumstances, the loan is specifically evaluated for potential classification as to special mention, substandard, or charged off. The Company uses the following definitions for risk ratings:

Pass: Loans considered pass are not past due and are not exhibiting any deterioration in the credit worthiness of the borrower.

Special Mention: Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

Classified: Classified loans are rated substandard or doubtful on the Company's risk rating methodology and are defined as follows:

- **Substandard:** Loans classified as substandard are inadequately protected by the current net worth and payment capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.
- **Doubtful:** Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Citizens Bancshares Corporation and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

Note 3. Loans Receivable and Allowance for Credit Losses, Continued

The following table presents the Company's recorded investment in loans by credit quality indicators by year of origination as of December 31, 2024 (in thousands).

	Term Loans by Year of Origination					Total
	2024	2023	2022	Prior	Revolving	
Commercial, financial and agricultural						
Pass	\$ 45,817	\$ 19,422	\$ 18,129	\$ 7,628	\$ 9,053	\$ 100,049
Special Mention	-	-	-	26	-	26
Classified	118	6,283	18	3	30	6,452
Total commercial, financial and agricultural	<u>\$ 45,935</u>	<u>\$ 25,705</u>	<u>\$ 18,147</u>	<u>\$ 7,657</u>	<u>\$ 9,083</u>	<u>\$ 106,527</u>
Current period gross write-offs	\$ -	\$ 5	\$ 80	\$ 27	\$ -	\$ 112
Construction and development						
Pass	\$ 1,297	\$ 22,823	\$ 13,490	\$ 4,390	\$ 1,104	\$ 43,104
Special Mention	-	-	-	-	-	-
Classified	518	-	-	131	-	649
Total construction and development	<u>\$ 1,815</u>	<u>\$ 22,823</u>	<u>\$ 13,490</u>	<u>\$ 4,521</u>	<u>\$ 1,104</u>	<u>\$ 43,753</u>
Current period gross write-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Residential first mortgages						
Pass	\$ 22,531	\$ 2,075	\$ 43,410	\$ 9,692	\$ 1,974	\$ 79,682
Special Mention	162	-	-	-	-	162
Classified	2,007	173	-	-	301	2,481
Total residential first mortgages	<u>\$ 24,700</u>	<u>\$ 2,248</u>	<u>\$ 43,410</u>	<u>\$ 9,692</u>	<u>\$ 2,275</u>	<u>\$ 82,325</u>
Current period gross write-offs	\$ -	\$ -	\$ -	\$ 40	\$ -	\$ 40
HELOCs and equity						
Pass	\$ 601	\$ 400	\$ 37	\$ 113	\$ 6,090	\$ 7,241
Special Mention	-	-	-	-	39	39
Classified	-	44	-	5	174	223
Total HELOCs and equity	<u>\$ 601</u>	<u>\$ 444</u>	<u>\$ 37</u>	<u>\$ 118</u>	<u>\$ 6,303</u>	<u>\$ 7,503</u>
Current period gross write-offs	\$ -	\$ -	\$ -	\$ -	\$ 13	\$ 13
Commercial real estate						
Pass	\$ 29,692	\$ 33,486	\$ 39,563	\$ 45,812	\$ 5,205	\$ 153,758
Special Mention	61	-	616	237	143	1,057
Classified	2,356	1,267	365	2,032	120	6,140
Total commercial real estate	<u>\$ 32,109</u>	<u>\$ 34,753</u>	<u>\$ 40,544</u>	<u>\$ 48,081</u>	<u>\$ 5,468</u>	<u>\$ 160,955</u>
Current period gross write-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Consumer and other						
Pass	\$ 8,739	\$ 4,790	\$ 692	\$ 358	\$ 2,398	\$ 16,977
Special Mention	-	-	-	-	-	-
Classified	42	25	-	16	73	156
Total consumer and other	<u>\$ 8,781</u>	<u>\$ 4,815</u>	<u>\$ 692</u>	<u>\$ 374</u>	<u>\$ 2,471</u>	<u>\$ 17,133</u>
Current period gross write-offs	\$ 49	\$ 10	\$ -	\$ 31	\$ 238	\$ 328

Citizens Bancshares Corporation and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

Note 3. Loans Receivable and Allowance for Credit Losses, Continued

The following table presents the Company's recorded investment in loans by credit quality indicators by year of origination as of December 31, 2023 (in thousands).

	Term Loans by Year of Origination					
	2023	2022	2021	Prior	Revolving	Total
Commercial, financial and agricultural						
Pass	\$ 42,895	\$ 29,133	\$ 10,167	\$ 10,446	\$ 2,638	\$ 95,279
Special Mention	5,948	-	38	-	-	5,986
Classified	132	26	-	-	22	180
Total commercial, financial and agricultural	<u>\$ 48,975</u>	<u>\$ 29,159</u>	<u>\$ 10,205</u>	<u>\$ 10,446</u>	<u>\$ 2,660</u>	<u>\$ 101,445</u>
Current period gross write-offs	<u>\$ 52</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 52</u>
Construction and development						
Pass	\$ 15,719	\$ 6,875	\$ 7,065	\$ -	\$ 199	\$ 29,858
Special Mention	-	-	-	-	-	-
Classified	-	-	70	130	-	200
Total construction and development	<u>\$ 15,719</u>	<u>\$ 6,875</u>	<u>\$ 7,135</u>	<u>\$ 130</u>	<u>\$ 199</u>	<u>\$ 30,058</u>
Current period gross write-offs	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Residential first mortgages						
Pass	\$ 3,337	\$ 4,320	\$ 36,306	\$ 17,505	\$ 472	\$ 61,940
Special Mention	207	-	40	-	-	247
Classified	54	-	-	709	249	1,012
Total residential first mortgages	<u>\$ 3,598</u>	<u>\$ 4,320</u>	<u>\$ 36,346</u>	<u>\$ 18,214</u>	<u>\$ 721</u>	<u>\$ 63,199</u>
Current period gross write-offs	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
HELOCs and equity						
Pass	\$ 336	\$ 101	\$ 31	\$ 91	\$ 5,267	\$ 5,826
Special Mention	-	-	-	-	-	-
Classified	-	13	12	103	-	128
Total HELOCs and equity	<u>\$ 336</u>	<u>\$ 114</u>	<u>\$ 43</u>	<u>\$ 194</u>	<u>\$ 5,267</u>	<u>\$ 5,954</u>
Current period gross write-offs	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Commercial real estate						
Pass	\$ 46,817	\$ 44,465	\$ 34,075	\$ 28,417	\$ 7,360	\$ 161,134
Special Mention	-	338	-	76	1,099	1,513
Classified	3,046	261	127	497	122	4,053
Total commercial real estate	<u>\$ 49,863</u>	<u>\$ 45,064</u>	<u>\$ 34,202</u>	<u>\$ 28,990</u>	<u>\$ 8,581</u>	<u>\$ 166,700</u>
Current period gross write-offs	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Consumer and other						
Pass	\$ 6,780	\$ 962	\$ 362	\$ 271	\$ 2,879	\$ 11,254
Special Mention	-	-	-	-	-	-
Classified	-	-	-	46	61	107
Total consumer and other	<u>\$ 6,780</u>	<u>\$ 962</u>	<u>\$ 362</u>	<u>\$ 317</u>	<u>\$ 2,940</u>	<u>\$ 11,361</u>
Current period gross write-offs	<u>\$ 51</u>	<u>\$ -</u>	<u>\$ 10</u>	<u>\$ 33</u>	<u>\$ 181</u>	<u>\$ 275</u>

Citizens Bancshares Corporation and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

Note 3. Loans Receivable and Allowance for Credit Losses, Continued

The following table is a summary of the Company's nonaccrual loans by major categories for the periods indicated (in thousands).

	December 31, 2024		
	<u>Nonaccrual Loans with no Allowance</u>	<u>Nonaccrual Loans with an Allowance</u>	<u>Total Nonaccrual Loans</u>
Commercial, financial and agricultural	\$ 309	\$ 5,948	\$ 6,257
Construction and development	-	131	131
Residential first mortgages	2,182	241	2,423
HELOCs and equity	180	-	180
Commercial real estate	3,144	120	3,264
Consumer and other	81	-	81
Total	<u>\$ 5,896</u>	<u>\$ 6,440</u>	<u>\$ 12,336</u>

	December 31, 2023		
	<u>Nonaccrual Loans with no Allowance</u>	<u>Nonaccrual Loans with an Allowance</u>	<u>Total Nonaccrual Loans</u>
Commercial, financial and agricultural	\$ 27	\$ 5,948	\$ 5,975
Construction and development	131	-	131
Residential first mortgages	387	-	387
HELOCs and equity	78	-	78
Commercial real estate	1,093	-	1,093
Consumer and other	46	-	46
Total	<u>\$ 1,762</u>	<u>\$ 5,948</u>	<u>\$ 7,710</u>

The Company recognized \$51,000 and \$48,000 of interest income on nonaccrual loans during the year ended December 31, 2024 and 2023, respectively. The Company has made certain loans where the interest is prepaid by the guarantor. When the loan is placed on non-accrual status, the prepaid interest is recognized, and the guarantor pays the principal. The Company has determined that nonaccrual loans that are exhibiting the ability for repayment or are less than the threshold for individual evaluation per company policy are excluded from individual evaluation unless it is determined that these loans exhibit different risk characteristics than the collective loan pool.

The following table represents the accrued interest receivables written off by reversing interest income during the year ended December 31, 2024 and 2023 (in thousands).

	December 31,	
	<u>2024</u>	<u>2023</u>
Commercial, financial and agricultural	\$ 16	219
Construction and development	2	2
Residential first mortgages	42	18
HELOCs and equity	8	1
Commercial real estate	82	33
Consumer and other	3	-
Total loans	<u>\$ 153</u>	<u>\$ 273</u>

Citizens Bancshares Corporation and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

Note 3. Loans Receivable and Allowance for Credit Losses, Continued

Collateral dependent loans:

The Company has certain loans for which repayment is dependent upon the operation or sale of collateral, as the borrower is experiencing financial difficulty. The underlying collateral can vary based upon the type of loan. The following provides more detail about the types of collateral that secure collateral-dependent loans:

Commercial real estate loans can be secured by either owner-occupied commercial real estate or non-owner-occupied investment commercial real estate. Typically, owner-occupied commercial real estate loans are secured by office buildings, warehouses, manufacturing facilities and other commercial and industrial properties occupied by operating companies. Non-owner-occupied commercial real estate loans are generally secured by office buildings and complexes, retail facilities, multifamily complexes, land under development, industrial properties, as well as other commercial or industrial real estate. Residential real estate loans are typically secured by first mortgages, and in some cases could be secured by a second mortgage. Home equity lines of credit are generally secured by second mortgages on residential real estate property. Consumer loans are generally secured by automobiles, motorcycles, recreational vehicles and other personal property. Some consumer loans are unsecured and have no underlying collateral.

The following table details the amortized cost of collateral dependent loans (in thousands).

	<u>December 31,</u>	
	<u>2024</u>	<u>2023</u>
Commercial, financial and agricultural	\$ 10,492	6,080
Construction and development	648	200
Residential first mortgages	2,669	456
HELOCs and equity	124	-
Commercial real estate	6,860	6,368
Consumer and other	15	34
Total loans	<u>\$ 20,808</u>	<u>\$ 13,138</u>

The Company designates individually evaluated loans on nonaccrual status as collateral-dependent loans, as well as other loans that management of the Company designates as having higher risk. Collateral-dependent loans are loans for which the repayment is expected to be provided substantially through the operation or sale of the collateral and the borrower is experiencing financial difficulty. These loans do not share common risk characteristics and are not included within the collectively evaluated loans for determining the allowance for credit losses. Under CECL, for collateral-dependent loans, the Company has adopted the practical expedient to measure the allowance for credit losses based on the fair value of collateral. The allowance for credit losses is calculated on an individual loan basis based on the shortfall between the fair value of the loan's collateral, which is adjusted for liquidation costs/discounts, and amortized cost. If the fair value of the collateral exceeds the amortized cost, no allowance is required.

Reserves associated with individually evaluated loans were \$5.9 million and \$3.1 million as of December 31, 2024 and 2023, respectively.

Citizens Bancshares Corporation and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

Note 3. Loans Receivable and Allowance for Credit Losses, Continued

The following table summarizes the activity related to the allowance for credit losses for the year ended December 31, 2024 (in thousands).

	Commercial, financial and agricultural	Construction and development	Residential first mortgages	HELOC's and equity	Commercial real estate	Consumer and other	Total
Allowance for credit losses:							
Balance, December 31, 2023	\$ 3,791	\$ 1,030	\$ 723	\$ 28	\$ 1,762	\$ 234	\$ 7,568
Charge-offs	(112)	-	(40)	(13)	-	(328)	(492)
Recoveries	-	-	27	34	6	18	85
Provision for credit losses	3,093	-	17	(27)	(8)	402	3,476
Balance, December 31, 2024	<u>\$ 6,772</u>	<u>\$ 1,030</u>	<u>\$ 727</u>	<u>\$ 22</u>	<u>\$ 1,760</u>	<u>\$ 326</u>	<u>\$ 10,637</u>

The following table summarizes the activity related to the allowance for credit losses for the year ended December 31, 2023 (in thousands).

	Commercial, financial and agricultural	Construction and development	Residential first mortgages	HELOC's and equity	Commercial real estate	Consumer and other	Total
Allowance for credit losses:							
Balance, December 31, 2022	\$ 1,198	\$ 209	\$ 388	\$ 77	\$ 898	\$ 216	\$ 2,986
Adoption of ASC 326	(255)	655	498	(49)	427	(79)	1,197
Charge-offs	(52)	-	-	-	-	(275)	(327)
Recoveries	-	-	-	1	5	36	42
Provision for credit losses	2,900	166	(163)	(1)	432	336	3,670
Balance, December 31, 2023	<u>\$ 3,791</u>	<u>\$ 1,030</u>	<u>\$ 723</u>	<u>\$ 28</u>	<u>\$ 1,762</u>	<u>\$ 234</u>	<u>\$ 7,568</u>

Modifications made to borrowers experiencing financial difficulty:

The allowance for credit losses incorporates an estimate of lifetime expected credit losses and is recorded on each asset upon asset origination or acquisition. The starting point for the estimate of the allowance for credit losses is historical loss information, which includes losses from modifications of receivables to borrowers experiencing financial difficulty. An assessment of whether a borrower is experiencing financial difficulty is made on the date of a modification.

Because the effect of most modifications made to borrowers experiencing financial difficulty is already included in the allowance for credit losses because of the measurement methodologies used to estimate the allowance, a change to the allowance for credit losses is generally not recorded upon modification. Occasionally, the Company modifies loans by providing principal forgiveness on certain of its real estate loans. When principal forgiveness is provided, the amortized cost basis of the asset is written off against the allowance for credit losses. The amount of the principal forgiveness is deemed to be uncollectible; therefore, that portion of the loan is written off, resulting in a reduction of the amortized cost basis and a corresponding adjustment to the allowance for credit losses.

In some cases, the Company will modify a certain loan by providing multiple types of concessions. Typically, one type of concession, such as a term extension, is granted initially. If the borrower continues to experience financial difficulty, another concession, such as principal forgiveness, may be granted. For the real estate loans included in the "combination" columns below, multiple types of modifications have been made on the same loan within the current reporting period. The combination is at least two of the following: a term extension, and interest rate reduction. No modifications involved principal forgiveness.

Citizens Bancshares Corporation and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

Note 3. Loans Receivable and Allowance for Credit Losses, Continued

Modifications made to borrowers experiencing financial difficulty, continued:

The following tables show the amortized cost basis of the loans modified to borrowers experiencing financial difficulty, disaggregated by class of loans and type of concession granted and describes the financial effect of the modifications made to borrowers experiencing financial difficulty as of December 31, 2024. (in thousands):

	<u>Interest Rate Reduction</u>		
	<u>Amortized Cost Basis</u>	<u>% of Total Loan Type</u>	<u>Financial Effect</u>
Commercial real estate	\$ 104	0.07%	Reduced weighted average contractual interest rate from 8.00% to 2.00%.
Total	<u>\$ 104</u>		

	<u>Combination - Term Extension and Interest Rate Reduction</u>		
	<u>Amortized Cost Basis</u>	<u>% of Total Loan Type</u>	<u>Financial Effect</u>
Residential first mortgages	\$ 1,954	2.4%	Added weighted-average 14 months to life of loans. Reduced weighted-average contractual interest rate from 8.50% to 5.00%.
Total	<u>\$ 1,954</u>		

The Company did not commit to lend additional amounts to the borrowers included in the previous tables.

The Company closely monitors the performance of the loans that are modified to borrowers experiencing financial difficulty to understand the effectiveness of its modification efforts. The following table depicts the performance of loans that have been modified during the year ended December 31, 2024 (in thousands):

	<u>Payment Status (Amortized Cost Basis)</u>		
	<u>Current</u>	<u>30-89 Days Past Due</u>	<u>90+ Days Past Due</u>
Residential first mortgages	\$ 1,954	\$ -	\$ -
Commercial real estate	<u>104</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 2,058</u>	<u>\$ -</u>	<u>\$ -</u>

Citizens Bancshares Corporation and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

Note 3. Loans Receivable and Allowance for Credit Losses, Continued

Modifications made to borrowers experiencing financial difficulty, continued:

The following tables show the amortized cost basis of the loans modified to borrowers experiencing financial difficulty, disaggregated by class of loans and type of concession granted and describes the financial effect of the modifications made to borrowers experiencing financial difficulty as of December 31, 2023. (in thousands):

	Interest Rate Reduction		
	Amortized Cost Basis	% of Total Loan Type	Financial Effect
Residential first mortgages	\$ 117	0.2%	Reduced weighted-average contractual interest rate from 7.94% to 5.42%
Total	<u>\$ 117</u>		

	Term Extension		
	Amortized Cost Basis	% of Total Loan Type	Financial Effect
Commercial, financial and agricultural	\$ 132	0.1%	Added a weighted-average 10 months to life of loans, which reduced monthly payment amounts for borrowers.
Commercial real estate	<u>786</u>	0.5%	Added a weighted-average 28 months to life of loans, which reduced monthly payment amounts for borrowers.
Total	<u>\$ 918</u>		

	Combination - Term Extension and Interest Rate Reduction		
	Amortized Cost Basis	% of Total Loan Type	Financial Effect
Residential first mortgages	\$ 102	0.2%	Added weighted-average 14 months to life of loans. Reduced weighted-average contractual interest rate from 8.00% to 5.75%.
Commercial real estate	<u>384</u>	0.2%	Added a weighted-average 21 months to life of loans. Reduced weighted-average contractual interest rate from 8.20% to 5.17%.
Total	<u>\$ 486</u>		

The Company did not commit to lend additional amounts to the borrowers included in the previous tables.

Upon the Company's determination that a modified loan (or portion of a loan) has subsequently been deemed uncollectible, the loan (or a portion of the loan) is written off. Therefore, the amortized cost basis of the loan is reduced by the uncollectible amount and the allowance for credit losses is adjusted by the same amount.

Citizens Bancshares Corporation and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

Note 3. Loans Receivable and Allowance for Loan Losses, Continued

The following table provides the amortized cost basis of loans that had a payment default during the year ended December 31, 2023 and were modified in the 12 months before default to borrowers experiencing financial difficulty (in thousands):

	Amortized Costs Basis of Modified Loans That Subsequently Defaulted		
	Interest Rate Reduction	Term Extension	Combination - Interest Rate Reduction and Term Extension
Residential first mortgages	\$ 1	\$ -	\$ -
Commercial real estate	-	247	261
Total	\$ 1	\$ 247	\$ 261

The Company closely monitors the performance of the loans that are modified to borrowers experiencing financial difficulty to understand the effectiveness of its modification efforts. The following table depicts the performance of loans that were modified during the year ended December 31, 2023 (in thousands):

	Payment Status (Amortized Cost Basis)		
	Current	30-89 Days Past Due	90+ Days Past Due
Commercial, financial and agricultural	\$ 132	\$ -	\$ -
Construction and development	-	-	-
Residential first mortgages	217	-	1
HELOC's and equity	-	-	-
Commercial real estate	124	539	508
Consumer and other	-	-	-
Total	\$ 473	\$ 539	\$ 509

Citizens Bancshares Corporation and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

Note 3. Loans Receivable and Allowance for Credit Losses, Continued

Unfunded commitments:

The Company maintains an allowance for off-balance sheet credit exposures such as unfunded balances for existing lines of credit, commitments to extend future credit, as well as both standby and commercial letters of credit when there is a contractual obligation to extend credit and when this extension of credit is not unconditionally cancellable (i.e., the commitment cannot be canceled at any time). The allowance for off-balance sheet credit exposures is adjusted as a provision for credit loss expense. The estimate includes consideration of the likelihood that funding will occur, which is based on a historical funding study derived from internal information, and an estimate of expected credit losses on commitments expected to be funded over its estimated life, which are the same loss rates that are used in computing the allowance for credit losses on loans and are discussed in Note 3. The allowance for credit losses for unfunded loan commitments of \$407,000 at December 31, 2024 and December 31, 2023, is separately classified on the Consolidated Balance Sheet within Other Liabilities.

The following table presents the balance and activity in the allowance for credit losses for unfunded loan commitments for the year ended December 31, 2024 and 2023. (in thousands).

	Total Allowance for Credit Losses – Unfunded Commitments	
	2024	2023
Balance, beginning of period	\$ 407	\$ 60
Adoption of ASC 326	-	336
Provision for unfunded commitments	-	11
Balance, end of period	<u>\$ 407</u>	<u>\$ 407</u>

Note 4. Premises and Equipment

Premises and equipment consisted of the following at December 31, 2024 and 2023:

	2024	2023
Land	\$ 2,212,250	\$ 2,212,250
Buildings and improvements	9,250,697	9,207,238
Furniture and equipment	<u>10,851,020</u>	<u>10,582,211</u>
Total	22,313,967	22,001,699
Less accumulated depreciation	<u>(16,599,692)</u>	<u>(15,958,246)</u>
Premises and equipment, net	<u>\$ 5,714,275</u>	<u>\$ 6,043,453</u>

Depreciation expense for the years ended December 31, 2024 and 2023 was approximately \$659,000 and \$620,000, respectively. During 2024, one vehicle acquired in 2004 was sold for a gain of \$1,006. The asset had been fully depreciated. There were no sales of premises and equipment for the year ended December 31, 2023.

Citizens Bancshares Corporation and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

Note 5. Deposits

The following is a summary of interest-bearing deposits at December 31, 2024 and 2023:

	<u>2024</u>	<u>2023</u>
NOW and money market accounts	\$ 195,145,748	\$ 174,194,779
Savings accounts	61,536,626	62,537,601
Time deposits of \$250,000 or more	11,246,674	10,494,233
Other time deposits	<u>103,440,945</u>	<u>65,728,620</u>
	<u>\$ 371,369,993</u>	<u>\$312,955,233</u>

At December 31, 2024, the Bank had two deposit relationships which comprised approximately 11.2% of total deposits. One deposit relationship comprised approximately 5.9% of total deposits as of December 31, 2023.

The Company participates in the Certificate of Deposit Account Registry Services (CDARS), a program that allows its customers the ability to benefit from the FDIC insurance coverage on their time deposits over the \$250,000 limit. The Company had approximately \$77,962,000 and \$37,707,000 in CDARS deposits at December 31, 2024 and 2023, respectively.

At December 31, 2024, the scheduled maturities of time deposits were as follows:

2025	\$ 103,820,515
2026	6,095,673
2027	1,884,074
2028	1,660,730
2029 and after	<u>1,226,627</u>
	<u>\$ 114,687,619</u>

Note 6. Borrowings

Federal Home Loan Bank Advances:

In August 2006, the Company received an Affordable Housing Program Award (AHP) in the amount of \$400,000. The AHP is a principal reducing credit with an interest rate of 0% and had a remaining balance of approximately \$42,000 and \$65,000 at December 31, 2024 and 2023, respectively. These advances are collateralized by FHLB stock, a blanket lien on the residential first mortgages, certain commercial real estate loans and investment securities. As of December 31, 2024 and 2023, total loans pledged to FHLB as collateral were approximately \$93.4 and \$79.9 million, respectively.

Citizens Bancshares Corporation and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

Note 6. Borrowings, Continued

Federal Home Loan Bank Advances, continued:

As of December 31, 2024 and 2023, maturities of the Company's Federal Home Loan Bank advances are as follows:

<u>Maturity</u>	<u>Rate</u>	<u>2024</u>	<u>2023</u>
August 2026 ⁽¹⁾	0.00%	\$ 41,725	\$ 64,921
		<u>\$ 41,725</u>	<u>\$ 64,921</u>

⁽¹⁾ This advance represents an AHP award used to subsidize loans for homeownership or rental initiatives. The AHP is a principal reducing credit, scheduled to mature on August 17, 2026 with an interest rate of zero.

At December 31, 2024, the Company has a \$192.4 million line of credit facility at the FHLB of which \$36.1 million was used for advances of \$42,000 and a letter of credit to secure public deposits in the amount of \$36.0 million. The Company also had \$98.7 million of borrowing capacity at the Federal Reserve Bank discount window. This borrowing capacity is collateralized by commercial real estate and consumer loans. As of December 31, 2024 and 2023, total pledged loans to the Federal Reserve Bank were approximately \$130.1 million and \$117.9 million, respectively. Additionally, as of December 31, 2024 and 2023, the Company had an unsecured federal funds line of credit for approximately \$9.0 million and \$7.0 million, respectively.

Note 7. Income Taxes

Income tax expense is summarized as follows for the years ended December 31:

	<u>2024</u>	<u>2023</u>
Current tax expense	\$ 4,464,679	\$ 5,125,433
Deferred tax benefit	<u>(618,196)</u>	<u>(1,451,314)</u>
Total income tax expense	<u>\$ 3,846,483</u>	<u>\$ 3,674,119</u>

A reconciliation between the income tax expense and the amount computed by applying the Federal statutory rate of 21% for the years ended December 31, 2024 and 2023 to income before income taxes follows:

	<u>2024</u>	<u>2023</u>
Tax expense at statutory rate	\$ 3,512,024	\$ 3,353,501
State income taxes, net of federal benefit	446,058	486,673
Tax exempt interest income, net of disallowed interest expense	(27,535)	(37,379)
Cash surrender value of life insurance income	(92,892)	(62,883)
Impact of tax rate change on deferred taxes	26,830	760
Other	<u>(18,002)</u>	<u>(66,553)</u>
Total	<u>\$ 3,846,483</u>	<u>\$ 3,674,119</u>

Citizens Bancshares Corporation and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

Note 7. Income Taxes, Continued

The components of the net deferred tax asset is as follows as of December 31, 2024 and 2023:

	<u>2024</u>	<u>2023</u>
Deferred tax assets		
Net unrealized loss on securities available for sale	\$ 3,601,643	\$ 3,361,816
Allowance for credit losses	2,710,210	1,935,830
Unfunded commitments	103,257	103,526
Nonaccrual loan interest	84,333	31,687
Deferred compensation	1,621,614	1,511,507
Deferred revenue	4,693	9,328
Depreciation	7,376	-
Leases	52,791	68,894
Other	-	<u>7,167</u>
Gross deferred tax assets	<u>8,185,917</u>	<u>7,029,755</u>
Deferred tax liabilities		
Deferred loan costs	458,180	92,601
Depreciation	-	74,315
Other	<u>6,875</u>	<u>-</u>
Gross deferred tax liabilities	<u>465,055</u>	<u>166,916</u>
Net deferred tax asset	<u>\$ 7,720,862</u>	<u>\$ 6,862,839</u>

Management currently considers it more likely than not that all related deferred tax assets will be realized; thus, no valuation allowance has been provided.

Tax returns for 2021 and subsequent years are subject to examination by taxing authorities.

The Company believes that its income tax filing positions taken or expected to be taken in its tax returns will more likely than not be sustained upon audit by the taxing authorities and does not anticipate any adjustments that will result in a material adverse impact on the Company's financial condition, results of operations, or cash flow. Therefore, no reserves for uncertain income tax positions have been recorded.

Note 8. Employee Benefits

Defined contribution plan:

The Company sponsors a defined contribution 401(k) plan covering substantially all full-time employees. Employee contributions are voluntary. The Company matches 50% of the employee contributions up to a maximum of 6% of compensation. During each of the years ended December 31, 2024 and 2023, the Company recognized approximately \$242,000 and \$206,000 in expenses related to this plan, respectively. The Company previously had Post Retirement Benefit Plans that provided retirement benefits to certain officers, board members, certain former officers, and former board members. The Bank also has a Life Insurance Endorsement Method Split Dollar Plan ("Split Dollar Life Insurance Plan") for the same participants which provided death benefits for their designated beneficiaries through an endorsement of a portion of the death benefit otherwise payable to the Bank. Under the Post Retirement Benefit and Split Dollar Life Insurance Plans (the Plans), the Board purchased life insurance contracts

Citizens Bancshares Corporation and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

Note 8. Employee Benefits, Continued

on certain participants. During 2008, the Bank discontinued participation in The Plans and converted certain key officers and active board members into a defined Supplemental Retirement Benefit Plans (SERP) and certain key officers into a Life Insurance Bonus Plan (the Bonus Plan). Upon completion of the conversion, most key officers and active Board members participating in the Split Dollar Life Insurance Plan surrendered their interest in the death benefit portion of the plan.

For the SERP and the Post Retirement Benefit Plans, the Company recognized approximately \$271,000 and \$488,000 2024 and 2023, respectively, in noninterest expenses. The Company recognized approximately \$442,000 and \$299,000 in 2024 and 2023, respectively, in noninterest income related to the insurance contracts. For the Bonus Plan, the Company incurred expenses of approximately \$53,000 and \$56,000 in 2024 and in 2023, respectively, in salaries and employee benefits expense.

The increase in cash surrender value for the contracts on those participants remaining in the Post Retirement Benefit Plan, less the Bank's premiums, constitutes the Bank's contribution to the Post Retirement Benefit Plans each year. In the event the insurance contracts fail to produce positive returns, the Bank has no obligation to contribute to the Post Retirement Benefit Plan. There were no additional purchases of life insurance contracts during the year ended December 31, 2023. The Company purchased \$9.0 million in additional life insurance contracts on certain participants during the year ended December 31, 2024. As of December 31, 2024 and 2023, the cash surrender value of these insurance contracts was approximately \$21.3 million and \$11.9 million, respectively.

Note 9. Commitments and Contingencies

Credit commitments and commercial letters:

The Company, in the normal course of business, is a party to financial instruments with off-balance sheet risk used to meet the financing needs of its customers. These financial instruments include commitments to extend credit and commercial letters of credit.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, and residential and commercial real estate. Commercial letters of credit are commitments issued by the Company to guarantee funding to a third party on behalf of a customer. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets. The contract amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

The Company's exposure to credit loss in the event of nonperformance by the other party of the financial instrument for commitments to extend credit and commercial letters of credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations related to off-balance sheet financial instruments as it does for the financial instruments recorded in the consolidated balance sheets.

Citizens Bancshares Corporation and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

Note 9. Commitments and Contingencies, Continued

	<u>2024</u>	<u>2023</u>
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	\$ 65,286,000	\$ 50,735,000
Commercial letters of credit	\$ 24,000	\$ 24,000

Leases:

As of December 31, 2024, the Company had an operating right-of-use (ROU) asset of \$927,000 and an operating lease liability of \$1.1 million. The lease for the Company's headquarters commenced on November 1, 2015 with a term of 12 years and 2 months. The lease requires monthly payments, which started at \$26,291 for the first year and increases 3% per year thereafter. The Company received a twenty-month rent abatement as of the lease commencement. The amount of the liability was determined by calculating the present value of the annual cash lease payments using a discount rate of 4.25%. As of December 31, 2024, future minimum lease payments under all noncancelable lease agreements inclusive of sales tax and maintenance costs for the next five years are as follows:

2025	405,190
2026	415,346
2027	389,484
2028	-
Total undisclosed lease payments	\$ 1,210,020
Less: effect of discounting	74,687
Present value of estimated lease payments	<u>\$ 1,135,333</u>

Rent expense in 2024 and 2023 was approximately \$336,000 and \$337,000, respectively, and was recorded in occupancy and equipment expense within the Consolidated Statements of Income.

Legal:

The Company has been named as a defendant in legal actions arising from their normal business activities in which damages in various amounts are claimed. Although the amount of any ultimate liability with respect to such matters cannot be determined, in the opinion of management, any such liability will not have a material effect on Company's consolidated financial statements.

Note 10. Net Income Per Common and Common Equivalent Share

Basic and diluted net income per common and potential common share has been calculated based on the weighted average number of shares outstanding. Nonvested restricted shares with only a vesting period as service requirement are considered to be dilutive for purposes of calculating diluted earnings per share below. The following schedule reconciles the numerators and denominator of the basic and diluted net income per common and potential common share for the years ended December 31, 2024 and 2023.

Citizens Bancshares Corporation and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

Note 10. Net Income Per Common and Common Equivalent Share, Continued

	<u>Year ended December 31, 2024</u>		
	<u>Net Income (Numerator)</u>	<u>Shares (Denominator)</u>	<u>Per Share Amount</u>
Basic earnings per share available to common stockholders	\$ 11,607,906	1,794,859	\$ 6.47
Effect of dilutive securities			
nonvested restricted common shares	-	64,590	0.23
Diluted earnings per share	<u>\$ 11,607,906</u>	<u>1,859,449</u>	<u>\$ 6.24</u>

	<u>Year ended December 31, 2023</u>		
	<u>Net Income (Numerator)</u>	<u>Shares (Denominator)</u>	<u>Per Share Amount</u>
Basic earnings per share available to common stockholders	\$ 12,024,931	1,917,102	\$ 6.27
Effect of dilutive securities			
nonvested restricted common shares	-	53,938	0.17
Diluted earnings per share	<u>\$ 12,024,931</u>	<u>1,971,040</u>	<u>\$ 6.10</u>

Note 11. Fair Value Measurements

Generally Accepted Accounting Principles (GAAP) provide a framework for measuring and disclosing fair value which requires disclosures about the fair value of assets and liabilities recognized in the balance sheet, whether the measurements are made on a recurring basis (for example, available for sale investment securities) or on a nonrecurring basis (for example, individually evaluated loans).

Fair value is defined as the exchange in price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. GAAP also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The Company utilizes fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures. Securities available for sale are recorded at fair value on a recurring basis. Additionally, from time to time, the Company may be required to record at fair value other assets on a nonrecurring basis, such as loans held for sale, loans held for investment and certain other assets. These nonrecurring fair value adjustments typically involve application of lower of cost or market accounting or write-downs of individual assets.

Citizens Bancshares Corporation and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

Note 11. Fair Value Measurements, Continued

Fair value hierarchy:

The Company groups assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine the fair value. These levels are:

- Level 1: Valuation is based upon quoted prices for identical instruments traded in active markets.
- Level 2: Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.
- Level 3: Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include the use of option pricing models, discounted cash flow models and similar techniques.

Following is a description of valuation methodologies used for assets and liabilities recorded at fair value.

Investment securities available for sale: Investment securities available for sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange such as the New York Stock Exchange, Treasury securities that are traded by dealers or brokers in active over-the-counter markets and money market funds. Level 2 securities include mortgage-backed securities issued by government sponsored entities, municipal bonds and corporate debt securities. Securities classified as Level 3 include asset-backed securities in less liquid markets.

Individually evaluated loans: The Company does not record loans at fair value on a recurring basis, however, from time to time, a loan is considered individually evaluated and an allowance for credit loss is established. The fair value of individually evaluated loans is estimated using one of several methods, including the collateral value, market value of similar debt, enterprise value, liquidation value and discounted cash flows. Those individually evaluated loans not requiring a specific allowance represent loans for which the fair value of expected repayments or collateral exceed the recorded investment in such loans. Individually evaluated loans for which an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the loan as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the loan as nonrecurring Level 3.

Citizens Bancshares Corporation and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

Note 11. Fair Value Measurements, Continued

Other real estate owned: Foreclosed assets are adjusted to fair value upon transfer of the loans to other real estate owned. Real estate acquired in settlement of loans is recorded initially at estimated fair value of the property less estimated selling costs at the date of foreclosure. The initial recorded value may be subsequently reduced by additional allowances, which are charges to earnings if the estimated fair value of the property less estimated selling costs declines below the initial recorded value. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the foreclosed asset as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the foreclosed asset as nonrecurring Level 3.

The table below presents the balances of assets and liabilities measured at fair value on a recurring basis by level within the hierarchy (in thousands):

	December 31, 2024			
	Total	Level 1	Level 2	Level 3
Recurring basis				
Securities available for sale				
Municipal securities	\$ 12,544	\$ -	\$ 12,544	\$ -
U.S. Treasury securities	26,433	-	26,433	-
Agency securities	17,836	-	17,836	-
Mortgage-backed securities	191,840	-	191,840	-
Corporate securities	9,670	-	9,670	-
Total	<u>\$ 258,323</u>	<u>\$ -</u>	<u>\$ 258,323</u>	<u>\$ -</u>
Nonrecurring basis				
Individually evaluated loans				
Commercial, financial and agricultural	\$ 10,492	\$ -	\$ -	\$ 4,543
Construction and development	648	-	-	634
Residential first mortgages	2,669	-	-	2,651
HELOCs and equity	124	-	-	174
Commercial real estate	6,860	-	-	6,740
Consumer and other	15	-	-	15
Total	<u>\$ 20,808</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,757</u>

Citizens Bancshares Corporation and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

Note 11. Fair Value Measurements, Continued

	December 31, 2023			
	Total	Level 1	Level 2	Level 3
Recurring basis				
Securities available for sale				
Municipal securities	\$ 12,801	\$ -	\$ 12,801	\$ -
U.S. Treasury securities	51,777	-	51,777	-
Agency securities	19,847	-	19,847	-
Mortgage-backed securities	110,546	-	110,546	-
Corporate securities	4,236	-	4,236	-
Total	<u>\$ 199,207</u>	<u>\$ -</u>	<u>\$ 199,207</u>	<u>\$ -</u>
Nonrecurring basis				
Individually evaluated loans				
Commercial real estate	\$ 5,566	\$ -	\$ -	\$ 5,566
Commercial, financial and agricultural	6,166	-	-	6,166
Residential first mortgages	1,259	-	-	1,259
HELOCs and equity	128	-	-	128
Construction and development	200	-	-	200
Consumer and other	107	-	-	107
Total	<u>\$ 13,426</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,426</u>

Following are disclosures of fair value information about financial instruments, whether or not recognized on the balance sheet, for which it is practicable to estimate that value. The assumptions used in the estimation of the fair values are based on estimates using discounted cash flows and other valuation techniques. The use of discounted cash flows can be significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. The following disclosures should not be considered an estimate of the liquidation value of the Company, but rather a good-faith estimate of the increase or decrease in the value of financial instruments held by the Company since purchase, origination, or issuance.

Cash, Due from Banks, Federal Funds Sold, Interest-Bearing Deposits with Banks and Certificates of Deposits - Fair value equals the carrying value of such assets due to their nature and is classified as Level 1.

Investment Securities - Fair value of investment securities is based on quoted market prices and is classified as Level 2.

Other Investments - The carrying amount of other investments approximates its fair value and is classified as Level 1.

Loans - The Company's loan portfolio is initially fair valued using a segmented approach. The Company divides its loan portfolio into the following categories: variable rate loans, individually evaluated loans and all other loans.

For variable-rate loans that reprice frequently and have no significant change in credit risk, fair values approximate carrying values. Fair values for impaired loans are estimated using discounted cash flow models or based on the fair value of the underlying collateral.

Citizens Bancshares Corporation and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

Note 11. Fair Value Measurements, Continued

Deposits - The fair value of demand deposits, savings accounts, and certain money market deposits is the amount payable on demand at the reporting date. The fair value of fixed rate certificates of deposit is estimated by discounting the future cash flows using the rates currently offered for deposits of similar remaining maturities and is classified as Level 2.

Notes Payable and Advances from Federal Home Loan Bank - The fair values of notes payable and advances from the Federal Home Loan Bank are estimated by discounting the future cash flows using the rates currently available to the Company for debt with similar remaining maturities and terms and are classified as Level 2.

Commitments to Extend Credit and Commercial Letters of Credit - Because commitments to extend credit and commercial letters of credit are made using variable rates, or are recently executed, the contract value is a reasonable estimate of fair value.

Limitations - Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Company's financial instruments, fair value estimates are based on many judgments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates. Fair value estimates are based on existing on and off-balance-sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments; for example, premises and equipment. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in the estimates.

Citizens Bancshares Corporation and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

Note 11. Fair Value Measurements, Continued

The following presents the carrying amount, fair value, and placement in the fair value hierarchy of the Company's financial instruments as of December 31, 2024 and 2023 (in thousands):

	December 31, 2024				
	Carrying Amount	Fair Value Measurements			
		Total	Level 1	Level 2	Level 3
Financial assets					
Cash and due from banks	\$ 2,169	\$ 2,169	\$ 2,169	\$ -	\$ -
Federal funds sold	35,200	35,200	35,200	-	-
Interest-bearing deposits with banks	52,734	52,734	52,734	-	-
Certificates of deposit	250	250	250	-	-
Investment securities	258,323	258,323	-	258,323	-
Other investments	950	950	950	-	-
Loans, net	407,559	400,113	-	-	400,113
Financial liabilities					
Deposits	\$ 599,989	\$ 340,551	\$ 226,525	\$ 114,026	\$ -
Advances from Federal Home Loan Bank	42	42	-	42	-
	Notional Amount	Estimated Fair Value			
Off-balance-sheet financial instruments					
Commitments to extend credit	\$ 65,286	\$ 65,286			
Commercial letters of credit	24	24			

Citizens Bancshares Corporation and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

Note 11. Fair Value Measurements, Continued

	December 31, 2023				
	Carrying Amount	Fair Value Measurements			
		Total	Level 1	Level 2	Level 3
Financial assets					
Cash and due from banks	\$ 1,605	\$ 1,605	\$ 1,605	\$ -	\$ -
Federal funds sold	33,428	33,428	33,428	-	-
Interest-bearing deposits with banks	107,675	107,675	107,675	-	-
Certificates of deposit	250	244	244	-	-
Investment securities	199,207	199,207	-	199,207	-
Other investments	995	995	995	-	-
Loans, net	371,149	363,902	-	-	363,902
Financial liabilities					
Deposits	\$ 554,796	\$ 554,887	\$ 478,573	\$ 76,314	\$ -
Advances from Federal Home Loan Bank	65	65	-	65	-
	<u>Notional Amount</u>	<u>Estimated Fair Value</u>			
Off-balance-sheet financial instruments					
Commitments to extend credit	\$ 50,735	\$ 50,735			
Commercial letters of credit	24	24			

Note 12. Stockholders' Equity

Capital Adequacy - The Company and the Bank are subject to various regulatory capital requirements administered by state and federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines that involve quantitative measures of the Company's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Company's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2024, the Company meets all capital adequacy requirements to which it is subject.

As of December 31, 2024, the Bank was considered "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized," the Bank must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the following table.

Citizens Bancshares Corporation and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

Note 12. Stockholders' Equity, Continued

The Company's and the Bank's actual capital amounts and ratios as of December 31, 2024 are also presented in the table below (in thousands):

December 31, 2024	Actual		For Capital Adequacy Purposes		To Be Well-Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital (to risk-weighted assets)						
Consolidated	\$ 202,610	41.6%	\$ 38,949	8.0%	\$ N/A	N/A
Bank	101,104	21.2%	38,222	8.0%	47,778	10.0%
Tier I common equity (to risk weighted assets)						
Consolidated	73,763	15.2%	21,909	4.5%	N/A	N/A
Bank	96,009	20.1%	21,500	4.5%	31,056	6.5%
Tier I capital (to risk weighted assets)						
Consolidated	196,463	40.4%	29,212	6.0%	N/A	N/A
Bank	96,009	20.1%	28,667	6.0%	38,222	8.0%
Tier I capital (to average assets)						
Consolidated	196,463	24.9%	31,614	4.0%	N/A	N/A
Bank	96,009	12.2%	31,371	4.0%	39,213	5.0%
December 31, 2023						
Total capital (to risk-weighted assets)						
Consolidated	\$ 186,580	43.3%	\$ 34,462	8.0%	\$ N/A	N/A
Bank	91,107	21.6%	33,741	8.0%	42,176	10.0%
Tier I common equity (to risk weighted assets)						
Consolidated	58,905	13.7%	19,385	4.5%	N/A	N/A
Bank	86,132	20.4%	18,979	4.5%	27,414	6.5%
Tier I capital (to risk weighted assets)						
Consolidated	181,605	42.2%	25,846	6.0%	N/A	N/A
Bank	86,132	20.4%	25,305	6.0%	33,741	8.0%
Tier I capital (to average assets)						
Consolidated	181,605	24.8%	29,272	4.0%	N/A	N/A
Bank	86,132	11.9%	28,994	4.0%	36,243	5.0%

Citizens Bancshares Corporation and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

Note 12. Stockholders' Equity, Continued

Dividend Limitation - The amount of dividends paid by the Bank to the Company or paid by the Company to its stockholders is limited by various banking regulatory agencies. Any such dividends will be subject to maintenance of required capital levels. The Georgia Department of Banking and Finance must approve dividend payments that would exceed 50% of the Bank's net income for the prior year to the Company.

The Company paid dividends of \$1.8 million and \$1.5 million on its common stock in 2024 and 2023, respectively. The annual dividend payout rate was \$1.00 and \$0.75 per common share in 2024 and 2023, respectively.

Basel III - Effective January 1, 2015, Basel III rules on the Company and the Bank became effective and the regulation now also requires the Company to maintain a minimum amount and ratio of common equity Tier 1 capital to risk weighted assets.

Note 13. Equity Incentive Plan

The Company awards restricted stock grants to directors and certain officers as a long-term incentive. Nonvested restricted stock for the years ended December 31, 2024 and 2023 is summarized in the following table.

	<u>2024</u>		<u>2023</u>	
		Weighted Average Grant-Date Fair Value		Weighted Average Grant-Date Fair Value
	<u>Shares</u>		<u>Shares</u>	<u>Fair Value</u>
Nonvested at January 1	63,200	\$ 22.08	59,200	\$ 11.30
Granted	24,700	47.40	25,700	36.80
Vested	(22,700)	18.98	(21,700)	10.09
Forfeited	<u>(2,000)</u>	<u>13.75</u>	-	-
Nonvested at December 31	<u>65,200</u>	<u>\$ 32.75</u>	<u>63,200</u>	<u>\$ 22.08</u>

The vesting schedule for these shares as of December 31, 2024 is as follows:

	<u>Shares</u>
2025	31,034
2026	27,333
2027	<u>6,833</u>
Total	<u>65,200</u>

Note 14. Related Party Transactions

Certain parties (principally certain directors and executive officers of the Company, their immediate families, and their business interests) were loan customers of and had other transactions in the normal course of business with the Company. Related party loans are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated persons and do not involve more than the normal risk of collectability.

Citizens Bancshares Corporation and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

Note 14. Related Party Transactions, Continued

The following table summarizes related party loans (in thousands):

	<u>2024</u>	<u>2023</u>
Balance at the beginning of the year	\$ 12,061	\$ 13,156
New loans or advances	286	464
Repayments	(627)	(1,559)
Balance at the end of the year	<u>\$ 11,720</u>	<u>\$ 12,061</u>

As of December 31, 2024 and 2023, the Company had related party loans totaling approximately \$11.7 million and \$12.1 million, respectively.

Deposits by directors, including their affiliates and executive officers, were approximately \$34.7 million and \$18.4 million at December 31, 2024 and 2023, respectively.

Note 15. Supplementary Income Statement Information

Components of other operating expenses were disaggregated further for the years ended December 31:

	<u>2024</u>	<u>2023</u>
Stationery and supplies	\$ 91,024	\$ 100,292
Telephone	371,733	403,636
FDIC insurance premium	336,000	318,067
Security and protection expense	394,034	354,994
Advertising and marketing	202,736	1,004,236
ATM charges	222,827	216,000
Business development	158,382	263,701
Subscription dues	214,302	171,432
Other miscellaneous expenses	<u>2,542,784</u>	<u>2,421,835</u>
Total	<u>\$ 4,533,822</u>	<u>\$ 5,254,193</u>

Citizens Bancshares Corporation and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

Note 16. Citizens Bancshares Corporation (Parent Company Only)

Presented below are the condensed financial statements for Citizens Bancshares Corporation (Parent Company Only).

Condensed Balance Sheets

	<u>As of</u> <u>December 31,</u>	
	<u>2024</u>	<u>2023</u>
Assets		
Cash	\$ 93,060,756	\$ 92,220,309
Investment in banking subsidiary	85,812,133	76,694,000
Investment in non-banking subsidiary	6,660,275	7,497,148
Other assets	769,743	529,057
Total assets	<u>\$ 186,302,907</u>	<u>\$ 176,940,514</u>
Liabilities and Stockholders' Equity		
Other liabilities	\$ 36,729	\$ 13,475
Stockholders' equity	<u>186,266,178</u>	<u>176,927,039</u>
Total liabilities and stockholders' equity	<u>\$ 186,302,907</u>	<u>\$ 176,940,514</u>

Condensed Statements of Income

	<u>For the years ended</u> <u>December 31,</u>	
	<u>2024</u>	<u>2023</u>
Income	\$ 6,172,000	\$ 2,969,916
Expenses	<u>1,084,604</u>	<u>825,867</u>
Income before tax benefit and equity in undistributed earnings of subsidiaries	5,087,396	2,144,049
Income tax benefit	<u>249,459</u>	<u>188,589</u>
Income before equity in undistributed earnings of the subsidiaries	5,336,855	2,332,638
Equity in undistributed earnings of the banking subsidiary	9,877,457	12,465,145
Equity in undistributed earnings of the non-banking subsidiary	<u>(2,336,873)</u>	<u>(2,502,852)</u>
Net income	<u>\$ 12,877,439</u>	<u>\$ 12,294,931</u>

Citizens Bancshares Corporation and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

Note 16. Citizens Bancshares Corporation (Parent Company Only), Continued

Condensed Statements of Cash Flows

	<u>For the years ended</u> <u>December 31,</u>	
	<u>2024</u>	<u>2023</u>
Operating activities		
Net income	\$ 12,877,439	\$ 12,294,931
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed earnings of subsidiaries	(7,540,584)	(9,962,293)
Restricted stock-based compensation plan	736,104	416,844
Change in other assets	(240,686)	(187,066)
Change in other liabilities	<u>23,254</u>	<u>(10,422)</u>
Net cash provided by operating activities	<u>5,855,527</u>	<u>2,551,994</u>
Investing activities		
Investment in subsidiaries	(1,500,000)	(10,000,000)
Financing activities		
Common stock dividend paid	(1,786,948)	(1,492,727)
Preferred stock dividend paid	(1,269,533)	(270,000)
Purchase of treasury stock	<u>(458,599)</u>	<u>(7,590,569)</u>
Net cash (used in) financing activities	<u>(3,515,080)</u>	<u>(9,353,296)</u>
Net (decrease) increase in cash	840,447	(16,801,303)
Cash, beginning of year	<u>92,220,309</u>	<u>109,021,611</u>
Cash, end of year	<u>\$ 93,060,756</u>	<u>\$ 92,220,309</u>

Note 17. Subsequent Events

Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued. Recognized subsequent events are events or transactions that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements. Nonrecognized subsequent events are events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date.

The Company has disclosed its investment portfolio position in Note 2. There has been no significant deterioration in the investment portfolio through the date the consolidated financial statements were issued.

Citizens Bancshares Corporation and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

Note 17. Subsequent Events, Continued

Effective March 1, 2025, CTB Financial Services (CTBFS) placed its share of a consortium loan, totaling \$4.2 million, on non-accrual status. The loan, originated through a loan broker, paid promptly throughout 2024 according to the loan agreement. As of December 31, 2024 the loan was current however, the loan has recently missed its last three payments. Management is exploring viable options to sell or reposition the business; however, there is no guarantee that a sale transaction will occur or that the full amount of the loan will be collected. Management has reviewed events occurring through March 28, 2025, the date the financial statements were available to be issued, and no items were noted requiring accrual or disclosure.

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Stockholders Information

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www.ctbconnect.com
678.406.4000

Mailing Address

Citizens Bancshares
Corporation
Post Office Box 56943
Atlanta, Georgia 30343

Notice of Annual Meeting

May 21, 2025, 11:00 a.m. ET
Citizens Trust Bank
Corporate Headquarters
230 Peachtree Street, NW
Suite 2700
Atlanta, Georgia 30303

Transfer Agency

Computershare
Investor Services
1.800.568.3476
250 Royall Street
Canton, Massachusetts 02021

Board of Directors of Citizens Bancshares Corporation

RAY M. ROBINSON

Chairman of the Board
Citizens Bancshares Corporation
President Emeritus
East Lake Golf Club

CYNTHIA N. DAY

President and CEO
Citizens Bancshares Corporation and Citizens Trust Bank

ROBERT L. BROWN, JR.

President
R.L. Brown & Associates

JOHN H. DWYER

Retired President
AT&T Prepaid and Cricket Wireless

STEPHEN A. ELMORE, SR.

Managing Principal
Elmore CPAs, LLC

C. HOWIE HODGES, II

Chief Executive Officer,
CH Hodges, Inc.

C. DAVID MOODY, JR.

Chief Executive Officer
C.D. Moody Construction Company, Inc.

H. JEROME RUSSELL, JR.

President
H.J. Russell and Company
Russell New Urban Development, LLC

JAMES E. WILLIAMS

Chairman
Immersive Solutions

ALICIA V. J. WILSON

Chief Audit Officer and Vice President of Internal Audit
Southwire

Principal Officers of Citizens Trust Bank

CYNTHIA N. DAY

President and Chief Executive Officer

SAMUEL J. COX

Executive Vice President/ Chief Financial Officer

FREDERICK L. DANIELS, JR.

Executive Vice President/Chief Credit Officer

FARRAND O. LOGAN

Executive Vice President/Chief Lending Officer/
Director of Sales and Business Development

WALVID D. KING, SR.

Alabama Market President

IRIS D. GOODLY

Senior Vice President/Director of Client Services
and Operations

WANDA F. NESBIT

Senior Vice President/Human Resources Director

LINDSAY J. SMITH

Chief Risk Officer



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Locations

GEORGIA

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South Fulton, GA 30331

East Point

2840 East Point Street
East Point, GA 30344

Panola

2727 Panola Road
Stonecrest, GA 30058

Rockbridge

5771 Rockbridge Road
Stone Mountain, GA 30087

Westside

Main Office
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Atlanta, GA 30314

ALABAMA

Birmingham Headquarters

1700 3rd Avenue North
Birmingham, AL 35203

Eutaw

213 Main Street
Eutaw, AL 35462

TRANSFER AGENCY

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